神冠
SHENGUAN

SHENGUAN HOLDINGS (GROUP) LIMITED
神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL AND OPERATING SUMMARY FOR THE YEAR ENDED 31 DECEMBER

(RMB million, except where otherwise stated)	**2019**	2018	Change
Revenue	**997.5**	899.0	+11.0%
Profit attributable to owners of the Company	**75.4**	80.3	-6.0%
Basic earnings per share (RMB cents)	**2.3**	2.5	-8.0%
Dividend per share (HK cents)			
– Final	**2.0**	2.0	–
– Special (Final)	**4.0**	1.6	+150.0%
Net cash flows from operating activities	**321.1**	282.1	+13.8%
Total assets	**3,083.5**	3,117.7	-1.1%
Inventory turnover day – Raw materials (days)*	**28.7**	29.2	-0.5 days
Inventory turnover day – Finished goods & Work in progress (days)*	**228.7**	338.4	-109.7 days
Trade receivables turnover day (days)*	**93.6**	107.7	-14.1 days
Trade payables turnover day (days)*	**87.6**	112.8	-25.2 days

* *Calculated based on the average value between the beginning of the year and the end of the year*

The board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, "Shenguan" or the "Group") for the year ended 31 December 2019 (the "Year" or the "Period"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The consolidated annual results of the Group for the Year have been reviewed by the audit committee of the Company and approved by the Board on 30 March 2020. The Board is pleased to propose a final dividend of HK2.0 cents per share and a special final dividend of HK4.0 cents per share to celebrate the Company's listing 10 years anniversary and as a reward to the shareholders for their support.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
REVENUE	4	**997,500**	899,016
Cost of sales		**(765,312)**	(586,470)
Gross profit		**232,188**	312,546
Other income and gains, net	4	**60,044**	36,836
Selling and distribution expenses		**(35,425)**	(39,686)
Administrative expenses		**(167,272)**	(202,630)
Finance costs	6	**(1,678)**	(3,545)
Share of loss of an associate		**(4,002)**	(7,430)
PROFIT BEFORE TAX	5	**83,855**	96,091
Income tax expense	7	**(17,262)**	(24,907)
PROFIT FOR THE YEAR		**66,593**	71,184
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(832)**	(886)
NET OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(832)**	(886)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**65,761**	70,298

	Note	2019 RMB'000	2018 RMB'000
Profit attributable to:			
Owners of the Company		**75,444**	80,259
Non-controlling interests		**(8,851)**	(9,075)
		66,593	71,184
Total comprehensive income attributable to:			
Owners of the Company		**74,612**	79,373
Non-controlling interests		**(8,851)**	(9,075)
		65,761	70,298
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	9		
Basic *(RMB cents per share)*		**2.3**	2.5
Diluted *(RMB cents per share)*		**2.3**	2.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,125,619**	1,194,793
Investment properties		**7,901**	7,799
Right-of-use assets		**116,090**	–
Prepaid land lease payments		**–**	122,010
Intangible assets		**36,104**	87,809
Investment in an associate		**28,965**	47,389
Deferred tax assets		**19,660**	27,139
Long term prepayments and other receivables		**8,410**	10,064
Pledged deposit		**50,000**	–
Time deposits		**220,000**	130,000
Total non-current assets		**1,612,749**	1,627,003
CURRENT ASSETS			
Inventories		**472,411**	606,784
Trade and bills receivables	10	**275,071**	236,588
Prepayments, other receivables and other assets		**69,069**	57,407
Financial asset at fair value through profit or loss		**10,139**	–
Pledged deposits		**45,000**	85,000
Cash and cash equivalents		**599,063**	504,884
Total current assets		**1,470,753**	1,490,663
CURRENT LIABILITIES			
Trade and bills payables	11	**78,553**	54,720
Other payables and accrual		**76,446**	85,216
Interest-bearing bank and other borrowings		**89,578**	82,671
Lease liabilities		**1,010**	–
Tax payable		**7,192**	14,292
Total current liabilities		**252,779**	236,899
NET CURRENT ASSETS		**1,217,974**	1,253,764
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,830,723**	2,880,767

	Note	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities		**392**	–
Deferred income		**31,574**	31,136
Deferred tax liabilities		**22,330**	35,365
Total non-current liabilities		**54,296**	66,501
Net assets		**2,776,427**	2,814,266
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	**27,807**	27,842
Reserves		**2,744,635**	2,773,738
		2,772,442	2,801,580
Non-controlling interests		**3,985**	12,686
Total equity		**2,776,427**	2,814,266

NOTES TO FINANCIAL INFORMATION

31 December 2019

1 BASIS OF PRESENTATION

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and a financial asset at fair value through profit or loss which have been measured at fair value. This financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial information.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The nature and the impact of the new and revised HKFRS 16, HKAS 28 and HK(IFRIC)-Int 23 are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for below elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under prepaid land lease payments and prepayment, other receivables and other assets of RMB122,010,000 and RMB3,203,000 respectively.

For the commercial properties (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Using a single discount rate to a portfolio of leases with reasonably similar characteristics

- Relying on its assessment of whether leases are onerous immediately before the date of initial application

- Excluding the initial direct costs from the measurement of the right-of-use asset at the date of initial application

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Right-of-use assets	**125,468**
Prepaid land lease payments	**(122,010)**
Prepayments, other receivables and other assets	**(3,203)**
Total assets	**255**
Liabilities	
Lease liabilities	**255**
Total liabilities	**255**

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	**1,876**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,606)
	270
Weighted average incremental borrowing rate as at 1 January 2019	5.46%
Lease liabilities as at 1 January 2019	**255**

(b) Adoption of Amendments to HKAS 28

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group does not have any long-term interests in associates upon adoption of the amendments on 1 January 2019 and accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Adoption of HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of the manufacture and sale of edible collagen sausage casing products. The Group also involves in the manufacture and sale of pharmaceutical products, food products, skin care and health care products and bioactive collagen products.

Since over 90% of the Group's revenue is generated by its edible collagen sausage casing products, no operating segments have been aggregated to form the above reportable operating segment.

Information about geographical areas

Geographical information is not presented since over 90% of the Group's revenue is derived from external customers based in the PRC and over 90% of the Group's non-current assets are located in the PRC. Accordingly, in the opinion of directors of the Company, the presentation of geographical information would provide no additional useful information to the users of this financial information.

Information about major customers

Revenue from major customers of the Group, excluding value added tax, which individually accounted for 10% or more of the Group's revenue for the year is set out below:

	2019	2018
	RMB'000	*RMB'000*
Customer 1	**165,160**	211,968
Customer 2	**159,467**	122,925
Customer 3	**110,566**	N/A*

* *Less than 10% of the Group's total revenue.*

4. REVENUE, OTHER INCOME AND GAINS, NET

Set out below is the disaggregation of the Group's revenue:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Goods transferred at point in time	**997,357**	898,768
Service transferred over time	**143**	248
	997,500	899,016
Other income		
Bank interest income	**24,156**	15,568
Other interest income	**15,567**	–
Sale of dried meat products	**664**	586
Government grants	**8,746**	8,286
Others	**2,313**	1,031
	51,446	25,471
Gains		
Foreign exchange gain, net	**697**	3,746
Gain on disposal of financial assets at fair value through profit or loss	**3,819**	7,414
Gain on disposal of right-of-use assets	**3,841**	–
Fair value gain on a financial asset at fair value through profit or loss	**139**	–
Fair value gains on investment properties	**102**	205
	8,598	11,365
Total other income and gains, net	**60,044**	36,836

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019	2018
	RMB'000	*RMB'000*
Employee benefit expense (including directors' remuneration:		
Wages and salaries	**154,530**	151,936
Retirement benefit contributions	**25,234**	24,371
	179,764	176,307
Cost of inventories sold	**672,112**	487,295
Depreciation of property, plant and equipment	**94,231**	94,469
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**3,948**	3,220
Amortisation of intangible assets	**51,705**	51,705
Impairment of goodwill	**–**	22,760
Impairment of an investment in an associate	**14,422**	13,607
Minimum lease payments under operating leases	**–**	3,771
Lease payments not included in the measurement of lease liabilities	**3,029**	–
Loss on disposal of items of property, plant and equipment, net	**1,945**	11,291
(Reversal of)/impairment of trade receivables, net	**(3,916)**	187
Write-off of inventories	**5,709**	7,457
Provision against obsolete and slow-moving inventories	**4,583**	7,620

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans	**1,643**	3,545
Interest on lease liabilities	**35**	–
	1,678	3,545

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Certain subsidiaries located in Wuzhou, Guangxi in the Western Region of China are subject to the region's preferential corporate income tax ("CIT") rate of 15% as set out in the Notice of the Ministry of Finance and the General Administration of Custom and the State Administration of Taxation on Tax Policy Issues Concerning Further Implementing the Western China Development Strategy (Cai Shui [2011] No. 58).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019	2018
	RMB'000	*RMB'000*
Current – PRC	**21,467**	35,400
Current – Hong Kong		
Charge for the year	**1,353**	1,167
Deferred tax	**(5,558)**	(11,660)
Total tax charge for the year	**17,262**	24,907

8. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Final dividend proposed subsequent to the reporting period – HK2.0 cents (2018: HK2.0 cents) per ordinary share	**58,703**	55,271
Final special dividend proposed subsequent to the reporting period – HK4.0 cents (2018: HK1.6 cents) per ordinary share	**117,406**	44,217
	176,109	99,488

The final dividend and special dividend for the year ended 31 December 2019 proposed subsequent to the reporting period have not been recognised as liabilities at the end of the reporting period and are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company of RMB75,444,000 (2018: RMB80,259,000) and the weighted average number of 3,230,539,000 ordinary shares (2018: 3,254,294,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

10. TRADE AND BILLS RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	**205,305**	209,009
Due from related companies	**2,677**	792
	207,982	209,801
Bills receivable	**89,353**	52,967
	297,335	262,768
Impairment	**(22,264)**	(26,180)
	275,071	236,588

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for certain customers.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 6 months	**269,909**	228,946
6 months to 1 year	**2,322**	4,996
Over 1 year	**2,840**	2,646
	275,071	236,588

11. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 1 month	**37,162**	26,579
1 to 2 months	**1,981**	4,821
2 to 3 months	**7,044**	5,571
Over 3 months	**32,366**	17,749
	78,553	54,720

The trade payables are non-interest-bearing. The trade and bills payables are normally settled on terms of ranging from 60 days to 180 days.

12. SHARE CAPITAL

	2019	2018
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,230,480,000 (2018: 3,234,578,000) ordinary shares of HK$0.01 each	**32,305**	32,346
Equivalent to RMB'000	**27,807**	27,842

A summary of movements in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares	Share premium	Equivalent nominal value of ordinary shares	Equivalent shares premium	Equivalent total
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	3,259,276,000	32,593	255,708	28,060	306,791	334,851
Cancellation of shares repurchased	(24,698,000)	(247)	(10,032)	(218)	(8,868)	(9,086)
Final 2017 dividend and special dividend	–	–	(117,334)	–	(95,719)	(95,719)
At 31 December 2018 and 1 January 2019	3,234,578,000	32,346	128,342	27,842	202,204	230,046
Cancellation of shares repurchased	(4,098,000)	(41)	(1,812)	(35)	(1,569)	(1,604)
Final 2018 dividend and special dividend	–	–	(116,297)	–	(102,554)	(102,554)
At 31 December 2019	3,230,480,000	32,305	10,233	27,807	98,081	125,888

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2019, China's national economic growth sustained a steady upward momentum overall. The hi-tech manufacturing and strategic emerging industries grew relatively faster, market sales were stable, economic transformation and upgrading was on-going, and urbanization rate continued to rise. However, in 2019, issues such as the overall increase in inflation, negative growth in the meat industry, oversupply of collagen sausage casings industry and African swine fever buzzled the attention.

According to the National Bureau of Statistics of the People's Republic of China (the "PRC"), in 2019, China's gross domestic product grew by 6.1% year-on-year with consumption growth accelerated in general and total retail sales of consumer goods grew by 8.4% when compared to last year, representing a steady upward momentum in general. The output of pork, beef, mutton and poultry was 76.49 million tons, down by 10.2% year-on-year, among which pork output decreased by 21.3% year-on-year. Thanks to the joint efforts of the people across the nation, China's total economic volume continued to reach a new level, and disposable income per capita had increased significantly.

Facing the complicated and volatile environment both domestically and abroad, the Group adopted a series of measures centering on the theme of "forging ahead for 40 years and setting sail again". Firstly, it adhered to the product quality management and followed the stringent process, quality and operation standards, striving to attain stable product quality and meet customer requirements. Secondly, it continued to perform well in developing new collagen sausage casings products to cater for market demands and expanded the variety of sausage casing products. Thirdly, it carried out intelligent technological transformation to improve the standard and efficiency of machinery and equipment.

BUSINESS REVIEW

Thanks to the joint efforts of its employees, the Group maintained a leading position in the domestic collagen sausage casing market. Since the fourth quarter of 2018, raw material prices have risen due to the continuously improved environmental protection requirements in China. To minimize the impact, the Group has actively taken effective measures to control production costs, but gross profit margin still declined. Since the second quarter of 2019, the Group has continued to negotiate with raw material suppliers and as a result, raw material prices went down to a certain extent.

Owing to fierce market competition, customers' requirements for products also increased. In 2019, under the market management philosophy of "maintaining major customers, expanding middle-range diameter products and focusing on agents", the Group strengthened the communication with customers and improved the provision of services to ensure the stability of product quality of key customers and middle-range diameter products, so as to promote the sales of middle-range diameter products, and maintain the position of the Group's collagen sausage casings in the domestic market. At the same time, the marketable high-end trial products are basically finalized and have entered into the stage of bulk trial production and customer trial use and achieved certain results. In addition, with the support of the government, the Group strengthened the research and development of its scientific research projects and had actively participated in public welfare undertakings such as student aid and poverty alleviation.

During the Year, with the joint efforts of all employees, the Group continued to improve product quality, continuously deepened and optimized performance management, added performance evaluation indicators for various departments, further perfected performance management systems, and enhanced food safety, environmental protection and production safety management. At the same time, the Group promoted the development of new industries and new products, strengthened the construction of the corporate research and development platforms, in which a group of highly-educated technical personnel are gathered.

INDUSTRIAL LAYOUT AND TECHNOLOGICAL RESEARCH & DEVELOPMENT

The Group is committed to stepping up the development of its collagen technologies, with an aim to establishing the safe, reliable and standardized great health industry. The move will also upgrade and transform the collagen industry and proactively promote the application of collagen in the great health industry. The Group is striving to research and develop new technologies and new products in various sectors covering collagen food products, healthcare products, skincare products and medicinal products, yet it is uncertain whether the research and development of new products will be successful or whether they will be launched into the market, considerable time is required before achieving the desired goals.

During the Year, the Group gained recognition for its outstanding performance, including the titles of “Guangxi Most Competitive Private Enterprise” (廣西最具競爭力民營企業), “Guangxi Top 100 Private Enterprises” (廣西民營企業100強) and “Guangxi Top 50 Private Manufacturers” (廣西民營企業製造業50強). After re-assessment, Wuzhou Shenguan Protein Casing Co., Ltd. (“Wuzhou Shenguan”), a wholly-owned subsidiary of the Company, maintained the research and development platforms titles as the national-grade “Post-doctoral Science Research Workstation” (博士後科研工作站), “Cluster of Collagen Technology Talents in Guangxi” (廣西膠原蛋白技術人才小高地), “Guangxi Collagen Engineering Technology Research Center” (廣西膠原蛋白工程技術研究中心), “Guangxi Enterprise Technology Center” (廣西企業技術中心) and “Guangxi Enterprise Research and Development Center” (廣西企業研發中心), and, for the first time, it received the title of “Guangxi Collagen Extraction Technology Research Center (廣西膠原蛋白提取技術工程研究中心)” as approved by Guangxi Development and Reform Commission. As at 31 December 2019, the Group employed a total of twelve high caliber talents, including six doctoral and post-doctoral research fellows, two senior engineers and five graduates of master degrees. During the Year, Wuzhou Shenguan continued to actively develop various new casings to meet the continuously developing customer needs.

During the Year, the Group achieved outstanding results in new product research and development. For collagen food products, the collagen rice noodles, bovine collagen and collagen solid and liquid drinks developed by the Group were put into trial production, some of which have already sold in the market. For collagen skincare products, the Group accelerated the development of collagen skincare product series according to market development trend. In particular, new products such as collagen serum product series, collagen mask essences, collagen extracts and collagen superior had achieved substantial progress in research and development, while certain new products are undergoing trial production. The machine and equipment of the Group's R&D and production base in Singapore has also been basically installed.

For collagen medical materials, Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") has filed to the Guangdong provincial authorities with the corporate standards on Fibrous Type I Collagen (Q/SCSW2-2017), Medical Soluble Type I Collagen (Q/SCSW3-2017) and Collagen Wound Dressing (Q/SCSW4-2017), and these products have been officially launched for sale during the Year. Our new product, collagen-based bone repairing biomaterials (膠原基骨修復生物材料), is at its testing stage for its product technical indicators.

During the Year, Guangdong Victory has submitted an application to the State Administration for Market Regulation of China for the production permits of collagen wound dressing (type 3 medical devices), the approval of which is still pending. In addition, Guangdong Victory has also lodged a number of applications for patents, of which the patents for "Artificial Bone Structure" have been granted by the National Intellectual Property Administration of the PRC and the Taiwan Intellectual Property Office and patents for "Preparation Method of Low Endotoxin Collagen" has been accepted to conduct review by the Taiwan Intellectual Property Office and the United States Patent and Trademark Office, and also accepted by the National Intellectual Property Administration of the PRC. The trial production of medical collagen products in Wuzhou has succeeded during the Year, and the production equipment is at the installation and trial production stage. The Group has also obtained the production permits for type 1 medical device products "band-aids", the mass production of which can be expected in 2020.

Ferguson (Wuhan) Biotech Company Limited ("Ferguson Wuhan") is putting efforts in the research and development of three types of products, namely health food, general food and food for special dietary users, of which, soybean isoflavone glucosamine sulfate chondroitin calcium soft capsule, the function of which is to increase bone density, has obtained new health food registration approval. The multivitamin and mineral soft capsules, new nutrient soft capsules for pregnant women, calcium vitamin D, calcium vitamin K chewable tablets, new little Ferguson soft capsules and new calcium tablets for pregnant women have obtained the new health food filing approval; and the health food registration of methylated folic acid has entered the stage of material declaration and the first technical review. Ferguson Wuhan has made initial achievement in market channel building.

As at 31 December 2019, the Group had the following patents:

	Granted and still effective	Accepted and pending approval
National Intellectual Property Administration of the PRC	81	16
Taiwan Intellectual Property Office	1	1
United States Patent and Trademark Office	–	1

COLLAGEN SAUSAGE CASINGS

One of the Group's principal businesses is the manufacture and sale of edible collagen sausage casings, most of which are used for the production of western sausages. Product innovation and diversification by sausage manufacturers continued to create demand for sausage casings of different sizes and fillings.

In order to keep pace with the new trend of the domestic meat product industry, the Group launched new products that can be applied to more types of sausages fillings to cater for the market. These new products are gradually marketed and adopted. At the same time, the Group also made tremendous efforts in enhancing internal management, increasing the level of automation, streamlining production processes and improving efficiency.

With respect to the supply of raw materials, cattle's inner skin is a major raw material for collagen sausage casing production. The supply of cattle's inner skin remained stable over the past few years and such situation is expected to remain unchanged in the coming years. Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan"), one of the Group's major cattle inner skin providers, applied for the Food Production Licence under the Measures for the Administration of Food Production Licensing and Food Safety Law of the PRC on a voluntary basis. The licence has been granted by Wuzhou Bureau for Administrative Examination and Approval with a valid period until November 2022.

QUALITY CONTROL

The Group strictly controls each production step to ensure that its products are of the best quality and comply with all safety requirements. The Group's production and manufacture of collagen sausage casings has passed the certification of ISO9001 Quality Management System, ISO22000 Food Safety Management System, ISO10012 Measurement Management System and ISO14000 Environmental Management System, and has obtained the Food Production Permit and the Filing of Export Food Manufacturers (出口食品生產企業備案證). The Group has also registered with the U.S. Food and Drug Administration for export of sausage casing products to the United States. In addition, the production of all of the Group's sausage casing products have strictly complied with the PRC's national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are the recognition of the Group as a trustworthy product supplier to its customers.

Guangxi Wuzhou Zhongguan Testing Technology Services Co., Ltd. ("Wuzhou Zhongguan"), a subsidiary of the Group, is able to examine over 400 indicators, including physicochemical indicators such as heavy metals and microelements, pesticide residues, microorganisms and proteins. Currently, Wuzhou Zhongguan continues to independently undertake third-party inspection assignments, undertake various food and relevant product testing services and issue officially recognized testing reports, delivering external sales revenue. Such qualification is going to lay a solid foundation for the Group to develop into a collagen materials base, thereby facilitating the development of high-end foods, healthcare products and medicines in the great health industry.

CUSTOMER RELATIONSHIP

The Group is committed to developing long-term cooperation relationships based on mutual trust with its business partners and has built a sophisticated customer network. The Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only for cooperation with enterprises in the PRC, but also with those in various overseas markets, such as South America, Southeast Asia and the United States. During the Year, the Group continued to supply high-quality sausage casing products to a number of renowned food suppliers in the PRC. The number of domestic customers remained stable.

FINANCIAL ANALYSIS

Revenue

Revenue increased by approximately 11.0% to approximately RMB997.5 million for the Year from approximately RMB899.0 million for the year ended 31 December 2018 (the "Prior Year"). The sales volume of collagen sausage casing for the Year increased as compared to the Prior Year despite the impact of African swine fever.

Cost of sales

Cost of sales increased by approximately 30.5% to approximately RMB765.3 million for the Year from approximately RMB586.5 million for the Prior Year, including the provision and write-off of inventory of approximately RMB10.0 million, as compared to provision and write-off of approximately RMB15.1 million for the Prior Year. Excluding such items, the cost of sales for the Year increased by approximately 32.2% as compared to the Prior Year. In addition to the increase in sales volume, one of the reasons for the increase in cost of sales was that since the fourth quarter of 2018, raw material prices have risen due to the continuous increase of environmental protection requirements in China. To minimize the impact, the Group has actively taken effective measures to control production costs. Since the second quarter of 2019, the Group continues to negotiate with raw material suppliers and as a result, raw material prices saw a certain extent of decrease. In addition, during the Year, as the Group continued to actively develop various new casings to meet the continuously developing customer needs, the trial production cost of casings also increased significantly. The costs of raw materials for the Year increased by approximately 64.7% to approximately RMB335.3 million as compared with that of the Prior Year. In addition, the charges for energy increased by approximately 21.9% to approximately RMB165.4 million. The direct labor cost increased by approximately 21.8% to approximately RMB129.4 million.

Gross profit

Gross profit decreased by approximately 25.7% to approximately RMB232.2 million for the Year from approximately RMB312.5 million for the Prior Year. The gross profit margin decreased from approximately 34.8% for the Prior Year to approximately 23.3% for the Year. The decrease in gross profit margin was mainly due to the increased production cost and trial production cost of casings.

Other income and gains

Other income and gains increased by approximately 63.0% to approximately RMB60.0 million for the Year from approximately RMB36.8 million for the Prior Year, which was mainly because the Group reached an agreement with an independent third party on a land development fund that has been invested since 2012, in which the cumulative interest income of approximately RMB15.6 million since the investment was credited during the Year. The other reason was the increase in bank interest income and gain on disposal of a right-of-use asset.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 10.7% to approximately RMB35.4 million for the Year from approximately RMB39.7 million for the Prior Year. Selling and distribution expenses as a percentage of revenue decreased to approximately 3.6% for the Year from approximately 4.4% for the Prior Year, which was primarily attributable to the reduced expenses on sales exhibition and spokespersons.

Administrative expenses

Administrative expenses decreased by approximately 17.4% to approximately RMB167.3 million for the Year from approximately RMB202.6 million for the Prior Year. During the Year, the Group sold or disposed some of the equipment in relatively obsolete condition and loss on disposal of approximately RMB1.9 million was recorded for equipment accordingly, as compared to a loss of approximately RMB11.3 million for the Prior Year.

For the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets are amortized over five years. The related amortization expense was approximately RMB50.8 million for the Year and the Prior Year. After deducting minority interests and deferred tax of Guangdong Victory, the effect of the related amortization expense on the net profit of the Group was approximately RMB30.4 million. The factor above which had a relatively material impact on the net profit for the Year was non-cash items and the cash flow of the Group was not affected.

During the Year, the Group made impairment of approximately RMB14.4 million on its 25% interest in Ferguson Wuhan. During the Year, although the sales revenue and gross profit of Ferguson Wuhan improved as compared with that of the Prior Year, it was still unable to meet the expected targets and a net loss was still recorded by Ferguson Wuhan. Therefore, the Group lowered the profit forecast of Ferguson Wuhan and made impairment. During the Prior Year, the Group also made impairment of approximately RMB13.6 million on its investment in Ferguson Wuhan and made impairment of approximately RMB22.8 million on the goodwill arising from the acquisition of 80% interest in Guangdong Victory.

All aforementioned factors which had a relatively material impact on the net profit for the Year were non-cash flow items and the cash flow of the Group was not affected.

Finance costs

Finance costs decreased by approximately 52.7% to approximately RMB1.7 million for the Year from approximately RMB3.5 million for the Prior Year. At the beginning of the Year, the Group repaid a major portion of its RMB denominated loans but obtained another additional Hong Kong dollar denominated loan of HK$50.0 million in June of the Year. During the Period, for most of the time, the Group maintained a low borrowing level.

Share of loss of an associate

The share of loss of an associate for the Year amounted to approximately RMB4.0 million, which was mainly due to the share of loss of Ferguson Wuhan during the Year.

Income tax expenses

Income tax expenses were approximately RMB17.2 million for the Year, as compared to approximately RMB24.9 million for the Prior Year. The Company's major operating subsidiary, Wuzhou Shenguan enjoyed a preferential tax treatment because of its location in western China and its engagement in industries encouraged by the government policies. The applicable tax rate for Wuzhou Shenguan was 15%.

The effective tax rates applied to the Group were approximately 25.9% and approximately 20.6% of profit before tax, respectively for the Prior Year and the Year. A higher effective tax rate for the Year and the Prior Year as compared to the applicable tax rate of major operating subsidiary was mainly due to the fact that the amortization of technology, impairment of goodwill and impairment of investment in an associate in the administrative expenses mentioned above were non-deductible items.

Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Year was approximately RMB8.9 million, mainly representing the amortization expense of technology intangible assets attributable to the non-controlling interests in Guangdong Victory.

Profit attributable to owners of the Company

Due to the aforesaid reasons, profit attributable to owners of the Company slightly decreased by 6.0% from approximately RMB80.3 million for the Prior Year to approximately RMB75.4 million for the Year.

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank borrowings

The Group generally finances its business operations and capital expenditure with internally generated cash flows as well as the bank borrowings provided by its principal banks.

As at 31 December 2019, the cash and cash equivalents together with pledged deposits and time deposits amounted to approximately RMB914.1 million, representing an increase of approximately RMB194.2 million from the end of 2018. Among these balances, approximately 92.8% was denominated in Renminbi, and the remaining 7.2% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 31 December 2019, the total bank borrowings of the Group amounted to approximately RMB89.6 million, representing an increase of approximately RMB6.9 million (as at 31 December 2018: approximately RMB82.7 million), and all the bank borrowings were wholly repayable within one year and were denominated in Hong Kong dollars.

The Group was in a net cash position (cash and cash equivalents together with pledged deposits and time deposits less total bank borrowings) of approximately RMB824.5 million as at 31 December 2019, representing an increase of approximately RMB187.3 million as compared to that at the end of 2018. The debt-to-equity ratio was 3.2% as at 31 December 2019 (as at 31 December 2018: 2.9%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Year, the net cash inflow of approximately RMB321.1 million was generated from operating activities, while investing activities and financing activities utilized approximately RMB79.8 million and RMB100.7 million, respectively. The net cash outflow from investing activities was mainly attributable to the cash outflow for increase in non-pledged time deposits with original maturity of over three months and purchase of property, plant and equipment. The net cash outflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowings and the new bank borrowings and the payment of final dividend for the year of 2018.

Exposure to exchange risks

The Group mainly operates in the PRC with most of its transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations are mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board believes that the future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

Capital expenditure

The capital expenditure of the Group during the Year amounted to approximately RMB25.7 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 31 December 2019 amounted to approximately RMB121.1 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2020 amounted to approximately RMB80.0 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business, as well as expansion of production facilities of the newly developing business, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of assets

As at 31 December 2019, pledged bank deposits amounted to approximately RMB95.0 million in total.

Contingent liabilities

As at 31 December 2019, the Group was not aware of any material contingent liabilities.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Year, Wuzhou Shenguan, a wholly-owned subsidiary of the Group, absorbed and merged its wholly-owned subsidiary Wuzhou Shensheng Collagen Products Co., Ltd. ("Shensheng Collagen") according to the Provisions on Merger and Division of Foreign-invested Enterprises (《外商投資企業合併與分立規定》) promulgated by the Ministry of Commerce of the PRC and completed relevant procedures on 30 May 2019. After the completion, Wuzhou Shenguan absorbed and merged all the assets and liabilities of Shensheng Collagen which cancelled its enterprise registration.

Events after the Year

The wide spread of the novel coronavirus pneumonia (COVID-19) in China since late 2019 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

Human Resources

As at 31 December 2019, the Group hired a total of approximately 2,480 contract employees (as at 31 December 2018: 2,550). During the Year, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB179.8 million (2018: approximately RMB176.3 million). In order to attract and retain high quality talents to ensure smooth business operation and to cope with the need of the Group's continuing expansion, the Group offers competitive remuneration packages with reference to the market conditions as well as individual qualifications and experience.

PROSPECTS AND STRATEGIES

Looking ahead to 2020, the Central Economic Work Conference made economic deployment, which emphasized that 2020 is the year for China to build a comprehensive well-off society and the final year of the "Thirteenth Five-Year Plan". To achieve the first century-goal and lay a solid foundation for the development of the "Fourteenth Five-Year Plan" and realize the second century-goal, China will adhere to the general theme of maintaining stability while making progress and new development concept, take supply-side structural reform as the main line and reform and opening up as the driving force to promote high-quality development. Recently, the CPC Central Committee and the State Council issued a number of policies to promote the stable growth and reform of enterprises, including "Opinions on Creating a Better Development Environment to Support the Reform of Private Enterprises", which are of tremendous significance for promoting the reform, innovation, transformation and upgrading, and healthy development of private enterprises. However, the epidemic of COVID-19 has also exerted temporary impact on the China's economy.

2020 is going to be the final year for the Group to implement the “Thirteenth Five-Year Plan”. However, the Group is exposed to threats from external factors such as global oversupply of collagen sausage casings, increasingly fierce market competition, slow or even negative growth in the meat industry, customer products transformation and upgrading, and higher requirements for product applicability. However, as nutritional high-end sausages are gradually available for household and group consumption, while the price of natural sausage casings is high, the demand for high-end collagen sausage casings to replace pig sausage casings will further increase, in which it will bring opportunities to the Group to a certain extent.

With the foundation laid for the first four years of the “Thirteenth Five-Year Plan” period, the Group has gradually formed the great health industry with collagen technology as its core, collagen sausage casing industry as its base and collagen food products, healthcare products, skincare products and medical materials as its development direction. In 2020, the production and operation of the Group will mainly focus on “stabilizing quality, stabilizing market, prudent investment” to speed up the implementation of product diversification strategies, increase efforts to develop new products and expand new markets while stabilizing its existing principal businesses and improving product quality. In addition, the Group will also strive to improve the level of mechanization and automation, and deepen the reform of job positions, performance and remuneration to fully mobilize the enthusiasm and creativity of employees in seizing opportunities and overcoming difficulties.

In terms of the sausage casing industry, there will be three focuses, namely, enhance product quality, improve the support of various production lines and comprehensively promote the technological transformation of mechanized, automated and intelligent production. While intensifying the development of new products and expanding the market, and further improving the ancillary facilities of production lines to fully utilize production capacity, the Group will carry out intelligent technological transformation to reduce production costs, and will also transform environmental protection facilities to enhance its environmental protection processing capabilities, thereby strengthening food safety and production safety to strictly prevent illegal operations and achieve the goal of reducing safety risks.

For collagen food products, the Group plans to expand its production capacity of collagen rice noodles, collagen drinks and bovine collagen ingredients. While accelerating the preliminary works of constructing rice noodle production workshops and equipment selection, the Group will also put more efforts in advertising and sales planning, and fully promote online e-commerce, micro commerce and offline agency sales, so as to realize more significant growth in sales revenue. For collagen skincare products, the Group will strengthen the construction of “Luxianna” product chain and the development of “COLL-FULL” new products, and accelerate the construction of the base in Singapore and put it into operation, so as to push forward the sales planning of the product series such as collagen extracts and collagen superior under the “collagen product family”.

The Group will further intensify the research on medical collagen, and strive to obtain the production permits for type III collagen wound dressing and the clinical trial approval of highly reactive collagen-based bone repairing biomaterials (高活性膠原基骨修復生物材

料) during 2020, and also strive to obtain the certification of ISO13485 and ISO22442 of the European Union in 2020 for the medical collagen products in Wuzhou. In addition, the Group will also expand the sales channels of medical collagen raw materials and type I medical device products, so as to generate economic benefits for the Group as soon as possible.

Finally, the Shenguan team will continue to work hard to propel the continuous business growth and further broaden the application of collagen technology to generate better returns for the shareholders.

OTHER INFORMATION

Dividends

The Directors recommended the payment of a final dividend of HK2.0 cents per ordinary share and a special final dividend of HK4.0 cents per ordinary share for the Year to celebrate the Company's listing 10 years anniversary to shareholders whose names appear on the register of members of the Company on 9 June 2020 (Tuesday). Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend and the special final dividend will be paid on or around 29 June 2020 (Monday).

Closure of Register of Members

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 29 May 2020 (Friday), the register of members of the Company will be closed from 26 May 2020 (Tuesday) to 29 May 2020 (Friday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 25 May 2020 (Monday). For determining entitlement to the final dividend and the special final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 4 June 2020 (Thursday) to 9 June 2020 (Tuesday), both days inclusive. The record date will be 9 June 2020 (Tuesday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 3 June 2020 (Wednesday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final and the special final dividends (if approved at the forthcoming annual general meeting), all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above respectively.

Purchase, Redemption or Sale of Listed Securities of the Company

During the Year, the Company purchased certain of its shares on the Stock Exchange and certain of these shares were subsequently cancelled by the Company. The summary details of those repurchases during the Year are as follows:

Month	Number of shares repurchased	Number of shares cancelled	Price per share Highest	Price per share Lowest	Total price paid
			HK$	*HK$*	*HK$*
January 2019	3,018,000	4,098,000	0.4600	0.4350	1,364,840

The 1,080,000 shares repurchased in December 2018 were cancelled in January 2019. As at 31 December 2019, the Company had no shares repurchased but not yet cancelled.

The purchase of the Company's shares during the Year was effected by the Directors, pursuant to the mandate from shareholders received at the annual general meeting held in May 2018, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

Model Code Set out in Appendix 10 to the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the members of senior management of the Group.

The Company has made specific enquiry with all the Directors and all the Directors have confirmed that they had complied with the Model Code during the Year. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company.

Corporate Governance Code

Save as disclosed below, the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the Year.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Ms. Zhou Yaxian, who acts as the chairman (the "Chairman") and the president of the Company, is also responsible for overseeing the general operations of the Group. The Company has not appointed any chief executive officer and the daily operations of the Group are delegated to other executive Directors, the management and various department heads. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

The Company understands the importance to comply with code provision A.2.1 of the Code and will continue to consider the feasibility of appointing the chief executive. The Company will make timely announcement if the chief executive has been appointed.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, there is effective communication with the shareholders and their views are communicated to the Board as a whole. The Chairman meets at least annually with the independent non-executive Directors without the other Directors being present.

Audit Committee

The audit committee of the Board had reviewed the consolidated annual results of the Group for the Year and considered that the Company had complied with all applicable laws, accounting standards and requirements, and had made adequate disclosure.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, and the related notes thereto for the Year as set out in this announcement have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

By Order of the Board
Shenguan Holdings (Group) Limited
Zhou Yaxian
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi; the non-executive Director is Dato' Sri Low Jee Keong; and the independent non-executive Directors are Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.