升海
SHENGHAI

中國升海集團有限公司
China Shenghai Group Limited

(formerly known as China Shenghai Food Holdings Company Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1676)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Board is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2020 ("**Year 2020**" or the "**Reporting Year**"), together with the comparative figures for the corresponding period in 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(Expressed in Renminbi)

	Notes	**2020** **RMB'000**	2019 RMB'000
Revenue	4	**162,718**	472,888
Cost of sales		**(132,002)**	(369,119)
Gross profit		**30,716**	103,769
Other income and other gains/(losses), net	5	**1,100**	1,272
Selling and distribution expenses		**(35,878)**	(43,734)
Administrative expenses		**(19,167)**	(14,098)
Expected credit loss on financial assets		**(3,309)**	(261)
Finance costs	6	**(444)**	(226)
Other expenses		**(3,358)**	(693)
(Loss)/profit before income tax	7	**(30,340)**	46,029
Income tax expense	8	**(1,915)**	(15,189)
(Loss)/profit for the year attributable to owners of the Company		**(32,255)**	30,840
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**841**	(13)
Other comprehensive income for the year		**841**	(13)
Total comprehensive (expense)/income for the year attributable to owners of the Company		**(31,414)**	30,827
(Loss)/earnings per share – Basic and Diluted (RMB)	10	**(0.3226)**	0.3084

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

(Expressed in Renminbi)

	Notes	**2020** **RMB'000**	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**56,979**	67,356
Deferred tax assets		**731**	372
Rental deposits		**477**	-
Deposits paid to suppliers		**1,479**	5,746
Prepayments		**3,500**	3,150
		63,166	76,624
Current assets			
Inventories	11	**75,452**	79,106
Trade receivables	12	**133,482**	102,278
Deposits paid to suppliers		**7,821**	-
Deposits, prepayments and other receivables		**6,392**	8,258
Cash and cash equivalents		**213,479**	242,578
		436,626	432,220
Current liabilities			
Trade payables	13	**16,353**	8,716
Accruals, deposits received and other payables		**15,467**	12,668
Debentures		**6,287**	-
Lease liabilities		**2,916**	1,065
Provision for taxation		**3,878**	5,501
		44,901	27,950
Net current assets		**391,725**	404,270
Total assets less current liabilities		**454,891**	480,894

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

(Expressed in Renminbi)

	Notes	**2020** **_RMB'000_**	2019 *RMB'000*
Total assets less current liabilities		**454,891**	480,894
Non-current liabilities			
Debentures		**6,959**	900
Lease liabilities		**1,515**	2,163
		8,474	3,063
Net assets		**446,417**	477,831
CAPITAL AND RESERVE			
Share capital		**8,723**	8,723
Reserves		**437,694**	469,108
Total equity		**446,417**	477,831

NOTES:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as revised and consolidated) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 18 July 2017. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is located at 5th floor, No.5 Factory, Mexi Road, Huandong Water, Tongon District, Hui Industrial Park, Xiamen City, Fujian Province, PRC.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries (together with the Company collectively refer to as "**Group**") is packaging and sales of seafood products and procurement and sales of fast moving consumer goods and others.

The directors consider the Company's immediate and ultimate holding company is Precisely Unique Limited, which is incorporated in the British Virgin Islands and the ultimate controlling shareholder is Mr. Liu Rongru.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is Hong Kong dollar ("**HKD**"), while the financial statements are presented in Renminbi ("**RMB**") as the Group's main operations are in the PRC and the functional currency of the Group's major operating subsidiaries in RMB.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Adoption of new or amended HKFRSs – effective from 1 January 2020

The Hong Kong Institute of Certified Public Accountants has issued a number of amended HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKAS 39, HKFRS 7 and HKFRS 9, Interest Rate Benchmark Reform

None of these amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT INFORMATION

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes.

Revenue is recognised when performance obligation is satisfied. The Group's revenue is derived from selling goods and providing services with revenue recognised at a point in time when control of the goods or services has transferred to the customer. For packaging and sales of dried seafood, algae and fungi and seafood snacks, the control is transferred when the goods are delivered to the customer. For procurement and sales of fast moving consumer goods and others, the control is transferred when the goods to which the procurement services related are shipped.

Operating segment information

In a manner consistent with how the Group manages its business and the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable and operating segments, namely (i) packaging and sales of marines products segment and (ii) all other segment.

Correction of revenue recognition

In the consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2020 that was included in the interim report of the Group published on 17 September 2020, the Group reported revenue from sale of fast moving consumer goods on gross basis. In the course of preparation of the consolidated financial statements for the year ended 31 December 2020, the Group reassessed the nature of its promises to its customers in relation to the sales of fast moving consumer goods. As the management of the Group has assessed that the Group is acting as an agent in these sale transactions with the customers because it does not obtain control on the fast moving consumer goods before they are sold to the customers. The Group, acting as an agent, therefore recognises revenue on net basis. The change resulted in adjustments to revenue and cost of sales amounting to RMB66,320,000 and RMB66,320,000 respectively for the six months period ended 30 June 2020.

Disaggregated revenue information

	2020	2019
	RMB'000	*RMB'000*
Revenue from contract customers		
Sales of marine products		
Dried seafood	**88,018**	246,108
Algae and fungi	**62,755**	190,283
Seafood snacks	**4,780**	36,497
Procurement and sales of fast moving consumer goods and others	**7,165**	-
	162,718	472,888
Geographical markets based on location of customers		
Mainland China	**155,553**	472,888
Hong Kong	**236**	-
South Korea	**6,929**	-
	162,718	472,888
Timing of revenue recognition		
Sales at point in time	**162,718**	472,888

Unsatisfied performance obligations

For sales of marine products and procurement and sales of fast moving consumer goods and others, the performance obligation are satisfied and revenue was recognised at a point in time when control of the goods has transferred to the customer. No unsatisfied performance obligation at the end of the each reporting years.

Information about major customers

No customer contributed 10% or more of the Group's revenue during the year ended 31 December 2020. (2019: Nil)

Information about geographical areas

The Group's sales by geographical areas, based on the delivery destination of the goods as requested by the customers, were all domestic and within the PRC, Hong Kong and South Korea.

The Group's non-current assets other than financial instruments mainly represent plant and equipment and prepaid lease payments are located in the PRC.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2020

	Packaging and sales of marine products segment *RMB'000*	**All other segments** *RMB'000*	**Total** *RMB'000*
Revenue from external customer			
From external customers	**155,553**	**7,165**	**162,718**
Segment results	**(25,887)**	**3,179**	**(22,708)**
Other income and other gains/(losses)			**187**
Finance costs			**(229)**
Corporate expenses			**(7,590)**
Loss before taxation			**(30,340)**

For the year ended 31 December 2019

	Packaging and sales of marine products segment *RMB'000*	Total *RMB'000*
Revenue from external customer		
From external customers	472,888	472,888
Segment results	51,045	51,045
Other income and other gains/(losses)		328
Finance costs		(13)
Corporate expenses		(5,331)
Profit before taxation		46,029

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by or loss from each segment without allocation of certain other income, other gains and losses, certain finance costs and corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	2020 ***RMB'000***	2019 *RMB'000*
Interest income on bank deposits	**857**	866
Interest income on secured loan receivables	**-**	329
Rental income	**55**	55
Government grants	**145**	-
Loss on disposal of plant and equipment	**-**	(1)
Gain on early termination of lease	**-**	23
Others	**43**	-
Total	**1,100**	1,272

6. FINANCE COSTS

	2020 *RMB'000*	2019 *RMB'000*
Interest on lease liabilities	**215**	221
Interest on debentures	**229**	-
Others	**-**	5
Total	**444**	226

7. (LOSS)/PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2020 *RMB'000*	2019 *RMB'000*
Auditors' remuneration	**964**	952
Costs of sales (Note)	**132,002**	369,119
Write down of inventories	**2,105**	-
Research expenditure	**578**	690
Depreciation charge		
- Property, plant and equipment	**17,453**	12,199
Impairment loss of property, plant and equipment	**675**	-
Impairment loss on trade receivables	**3,292**	851
Impairment loss/(reversal of) on deposits paid to suppliers	**17**	(130)
Reversal of impairment loss on loan receivables	**-**	(460)
Operating lease rental in respect of:		
- Short-term lease expenses	**507**	1,325
Staff costs (including directors' emoluments)		
- Salaries and wages	**29,634**	34,880
- Bonus	**491**	468
- Retirement scheme contribution	**2,086**	4,039

Note: Cost of sales are mainly comprised of cost of inventories recognized as expenses, which amounted to RMB129,897,000 (2019: RMB346,669,000)

8. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2020	2019
	RMB'000	*RMB'000*
Current tax		
Tax for the year	**434**	12,723
Under-provision in respect of prior year	**149**	744
Deferred tax		
Current year	**1,332**	1,722
Total	**1,915**	15,189

Under the Law of the PRC on Enterprise Income Tax ("EIT") and Implementation Regulations of the EIT Law, the tax rate of the Company's PRC subsidiaries is 25% for both years.

Provision for the PRC EIT for the year ended 31 December 2020 and 2019 was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2020. No provision for Hong Kong Profits Tax has been made in 2019 as the Group had no assessable income arising in Hong Kong for the year ended 31 December 2019.

The income tax expense for the year can be reconciled to the (loss)/profit before income tax per the consolidated statement of comprehensive income as follows:

	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(30,340)**	46,029
Tax thereon at domestic rates applicable to profit or loss in the jurisdictions concerned	**(7,222)**	11,921
Under-provision in prior year	**149**	744
Tax effect of expenses not deductible for tax purposes	**296**	1,373
Tax effect of revenue not taxable for tax purpose	**(23)**	(11)
Tax effect of tax losses not recognised	**8,715**	1,162
Income tax expense for the year	**1,915**	15,189

9. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

10. BASIC AND DILUTED EARNINGS PER SHARE

	2020	2019
	RMB'000	*RMB'000*
(Losses)/profits		
(Loss)/profit attributable to owners of the Company	**(32,255)**	30,840

	2020	2019
	Number'000	*Number'000*
Number of shares		
Weighted average number of ordinary shares (note)	**100,000**	100,000

Note:

(i) Diluted earnings per share were the same as the basic earnings per share as the Group had no dilutive potential shares during the years ended 31 December 2020 and 2019.

(ii) On 25 May 2020, the share consolidation resolution has been passed by the Company's shareholders in the AGM. On 26 May 2020, every ten issued and unissued shares of HK$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK$0.10 each in the share capital of the Company. The authorized share capital of the Company became HK$100,000,000 divided into 1,000,000,000 consolidated shares of par value of HK$0.10 each, of which 100,000,000 consolidated shares of par value of HK$0.10 each was in issue.

The weighted average number of ordinary shares in issue during the years ended 31 December 2020 and 2019 have been retrospectively adjusted for the share consolidation which came into effect on 26 May 2020.

11. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**2,796**	15,064
Finished goods	**72,656**	64,042
	75,452	79,106

During the year, written-down of inventories amounting to RMB2,105,000 has been made in 2020 (2019: Nil) and recognised in other expenses in consolidated profit or loss.

12. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables		
- Sales of marine products	**129,232**	103,566
- Procurement and sales of fast moving consumer goods and others	**8,830**	-
	138,062	103,566
Less: impairment loss	**(4,580)**	(1,288)
	133,482	102,278

Based on the invoice dates, the ageing analysis of the Group's gross trade receivables are as follows:

	2020	2019
	RMB'000	*RMB'000*
0 – 30 days	**20,677**	40,754
31 – 60 days	**24,847**	36,638
61 – 90 days	**18,747**	22,643
91 – 120 days	**11,515**	3,531
121 – 365 days	**62,276**	-
	138,062	103,566

The movement in the allowance for impairment of trade receivables is as follows:

	2020	2019
	RMB'000	*RMB'000*
Carrying amount at 1 January	**1,288**	437
Expected credit losses recognised	**3,292**	851
Carrying amount at 31 December	**4,580**	1,288

The directors consider that the carrying amounts of trade receivables approximate their fair values.

13. TRADE PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables		
Purchase of marine products	**7,443**	8,716
Purchase of fast moving consumer goods	**8,910**	-
	16,353	8,716

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally 30 – 60 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at 31 December 2020 and 2019 are as follows:

	2020	2019
	RMB'000	*RMB'000*
0 – 30 days	**11,060**	8,716
31 – 60 days	**5,293**	-
	16,353	8,716

The trade payables are short-term and hence the carrying values of the Group's trade payables are considered a reasonable approximate of fair value.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2020. The work performed by BDO Limited 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 BDO Limited on the preliminary results announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group sells dried seafood, algae and fungi, and seafood snacks in the PRC. The Group (i) sources high quality raw and processed raw materials, (ii) sub-contracts processing of the unprocessed raw materials to third parties, (iii) packages products at its own packaging facilities or through its sub-contractors, and (iv) sells packaged products under its own brand "Wofan（沃豐）". The Group also sells dried seafood, algae and fungi without packaging. The Group also engaged in the procurement and sales of fast moving consumer goods since early 2020.

The Group's revenue fell by approximately 65.6% to approximately RMB162.7 million in the Reporting Period from approximately RMB472.9 million for the year ended 31 December 2019. The outbreak of the Coronavirus Disease 2019 ("COVID-19") epidemic has caused serious damage to China's economy in 2020. The GDP of China's economy shrank by 6.8% year-on-year in the first quarter of 2020, which was the first GDP decline since the official record began in 1992. The Group's gross profit for the Reporting Period also fell by 70.4% to approximately RMB30.7 million (year ended 31 December 2019: approximately RMB103.8 million while gross profit margin fell to 18.9% (year ended 31 December 2019: 21.9%). Due to the sharp decline in turnover and gross profit, the group recorded a loss for the first time since its listing of approximately RMB32.3 million (year ended 31 December 2019: profit of RMB30.8 million).

FOOD BUSINESS

The Group has a comprehensive product portfolio with different raw materials, flavouring and packaging and considers each product to be distinctive. The Group seeks to differentiate itself from its competitors by providing a broad and convenient choice of safe and quality products, which creates additional opportunities to drive the overall sales. During the Reporting Period, the Group offered over 100 types of dried seafood, 30 types of algae and fungi, and 60 types of seafood snacks.

The Group's products are sold through supermarkets, trading companies, convenience stores and other sales channels, such as food companies, gift stores and e-commerce retailers.

As a result of the outbreak of the COVID-19 epidemic, a series of precautionary and control measures have been implemented across the PRC and the Group's operations have been seriously affected. Consumers' demand for the Group's products has fallen further, leading to the group's customers becoming more cautious when placing orders with the Group. In addition, to ensure the health and safety of employees and customers, the Group has suspended most of the product promotion activities during the year, which directly affected the turnover and results of our food business. The Group's revenue from food business decreased by approximately 67.1% from approximately RMB472.9 million for the year ended 31 December 2019 to approximately RMB155.6 million during the reporting period, and recorded a loss of approximately RMB25.9 million (year ended 31 December 2019: profit of approximately RMB51.0 million).

FAST MOVING CONSUMER GOODS AND OTHER BUSINESS

The Group has been actively studying the feasibility of stepping into other industries, and spared no effort to actively seek cooperation and merger and acquisition opportunities for the group to obtain growth momentum to make full use of the company's financial strength. Taking into account the possible long-term impact of the Sino-US trade war on China's economy, coupled with the impact of the COVID-19 epidemic, the Group believes that it should expand more businesses other than food to balance its business risks. In early 2020, the Group began our new fast moving consumer goods business, which will mainly involve in the sales of cosmetics, daily necessities, fashion and accessories whereby the Group enters into sale contracts with its customers in Hong Kong and South Korea and purchase contracts with its suppliers in the PRC. The Group sources for and sells fast moving consumer goods that suit the customers' specific requirements as stated in the sale contracts. Management considers that the Group does not bear price and inventory risks with regard to the fast moving consumer goods as the sale contract terms, including the selling prices for the goods, are agreed upon after taking into consideration the prevailing market prices of the fast moving consumer goods and the Group does not obtain control of the goods before they are sold to the customers.

Management of the Group considers that the Group is acting as an agent in this procurement business these sale transactions with the customers because it does not obtain control of the fast moving consumer goods before they are sold to the customers and therefore, net amounts of the sales and cost of sales of these indent trading transactions were recorded as service income.

For the year ended 31 December 2020, the Group's fast moving consumer goods business and others has net revenue of approximately RMB7.2 million and recorded a profit of approximately RMB3.2 million.

In the consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2020 that was included in the interim report of the Group published on 17 September 2020, the Group reported revenue from sale of fast moving consumer goods on gross basis. In the course of preparation of the consolidated financial statements for the year ended 31 December 2020, the Group reassessed the nature of its promises to its customers in relation to the sales of fast moving consumer goods. As explained above, management of the Group has assessed that the Group is acting as an agent in these sale transactions with the customers because it does not obtain control on the fast moving consumer goods before they are sold to the customers. The Group, acting as an agent, therefore recognises revenue on net basis. The change resulted in adjustments to revenue and cost of sales amounting to RMB66,320,000 and RMB66,320,000 respectively for the six months period ended 30 June 2020.

Operating results and financial review

Revenue

During the Reporting Period, the Group's revenue decreased by approximately 65.6% to approximately RMB162.7 million from approximately RMB472.9 million for the year ended 31 December 2019, primarily due to decreases in both sales volume and average selling prices.

The table below sets out a breakdown of the Group's revenue categorized by product types during the Reporting Year:

	Year ended 31 December			
	2020	**% to total**	2019	% to total
	RMB'000	**revenue**	*RMB'000*	revenue
Food Business				
Dried seafood	**88,018**	**54.1%**	246,108	52.1%
Algae and fungi	**62,755**	**38.6%**	190,283	40.2%
Seafood snacks	**4,780**	**2.9%**	36,497	7.7%
Fast moving consumer goods and other business	**7,165**	**4.4%**	-	N/A
Total	**162,718**		472,888	

Gross profit and gross profit margin

Gross profit represents our revenue less our cost of sales, and our gross profit margin represents gross profit divided by revenue, expressed as a percentage. The following table sets forth the gross profit and gross profit margin by product category for the Reporting Year:

The Group's gross profit margin was approximately 18.9% and approximately 21.9% during the Reporting Year and for the corresponding period of last year. The decrease in gross profit margin was mainly due to the decrease in average selling prices of the Group's food business during the year.

Other income and other gains/(losses), net

Other income represents rental income generated from the seaweed farms located in Xiapu, the PRC,interest income from bank deposits and government grant.

Selling and distribution expenses

Selling and distribution expenses primarily consist of salaries and employee benefit expenses for employees engaging in the sales and promotion activities, transportation expenses, depreciation, advertising and promotion expenses, rental expenses and other expenses. As a percentage of revenue, our selling and distribution expenses amounted to approximately 22.0% and 9.2% for the year ended 31 December 2020 and 2019, respectively. This increase was primarily due to the decrease in revenue of the Group during the Reporting Year.

Administrative expenses

Administrative expenses primarily consist of salaries and employees benefit expenses, rental expenses, office expenses, depreciation and others. As a percentage of revenue, our administrative expenses increased from approximately 3.0% for the year ended 31 December 2019 to approximately 11.8% for the Reporting Year, mainly due to the decrease in revenue of the Group during the Reporting Year.

Income tax expenses

Income tax expense primarily consists of Enterprise Income Tax of Xiamen Wofan Foodstuffs Company Limited and Fujian Wofan Foodstuffs Company Limited, the applicable tax rate of which being 25%. For the year ended 31 December 2020 and 2019, income tax expense were approximately RMB1.9 million and RMB15.2 million, respectively.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), we are not subject to any income tax in the Cayman Islands or the BVI.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2020. No provision for Hong Kong Profits Tax has been made in 2019 as the Group had no assessable income arising in Hong Kong for the year ended 31 December 2019.

Liquidity and financial resources and capital structures

Cash flows

During the Reporting Year, the Group funded its working capital and other capital requirements principally by cash generated from our operating activities.

Net current assets

Net current assets decreased from approximately RMB404.3 million as at 31 December 2019 to approximately RMB391.7 million as at 31 December 2020. The decrease was primarily attributable to the decrease in cash and cash equivalents.

Cash and cash equivalent and bank borrowings

As at 31 December 2020, cash and cash equivalents of the Group was approximately RMB213.5 million, as compared to approximately RMB242.6 million as at 31 December 2019 and the Group has no bank borrowings.

Gearing ratio

As at 31 December 2020, the gearing ratio (calculated by total debt divided by the total equity as at the end of the year) was 0.040 (31 December 2019: 0.009).

Capital expenditures

For the year ended 31 December 2020, the Group's capital expenditure amounted to approximately RMB7.2 million (Year ended 31 December 2019: approximately RMB5.0 million).

Pledge of assets

As at 31 December 2020, the Group did not pledge any assets.

Significant investment, material acquisitions and disposals of subsidiaries and associated companies

There was no significant investment, material acquisition and disposal of subsidiaries by the Company during the Reporting Year. Except for the acquisition of Talent Trader Investment Development Limited as disclosed under the section headed "Events after the reporting period", the Group currently has no plan to make any substantial investment in or acquisition of capital assets, but will continue to seek for potential investment or acquisition opportunities according to the Group's development needs.

Exchange risk exposure

The Group mainly operates in the PRC and most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the Reporting Year.

Employees

As at 31 December 2020, the Group had 486 full time employees in total (31 December 2019: 554). The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Final dividend

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 to the shareholders.

Events after the reporting period

On 23 March 2021, the Company entered into a Sales and Purchase Agreement with an independent third party (the "**Vendor**"), pursuant to which, the Vendor conditionally agreed to sell, and the Company conditionally agreed to purchase, 51% shareholding in the Talent Trader Investment Development Limited ("**Target Company**") for a consideration of RMB19.7 million subject to and upon the terms of the Sale and Purchase Agreement. As at the date of approval of these consolidated financial statements, acquisition of the Target Company has not been completed. Details of the acquisition were set out in the Company's announcements dated 23 March 2021.

Following the outbreak of Coronavirus Disease 2019 ("the COVID-19 Outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC, which has affected the business and economic activities of the Group to a certain extent.

In light of the negative impact brought upon by the COVID-19 Outbreak in short term, it may lead to increase of costs incurred by additional hygiene and epidemic prevention requirements when rendering procurement and sales of fast moving consumer goods and others, as well as decrease or delay of revenue from sales of marine goods due to various level of restrictions and controls.

Outlook

Even though the COVID-19 pandemic has brought the biggest challenge to the Group since its establishment, the Group believes that the pandemic has brought challenges as well as opportunities. The outbreak of the pandemic has accelerated and changed people's consumption habits, and e-commerce has become the major way of daily consumption of the people. In addition, the outbreak of the epidemic has also highlighted the business risks brought about by oversimplification of business. In order to maintain the financial strength and stable growth strategy in these difficulties, the Group will actively change its existing to traditional sales model and increase investment in the development of e-commerce business. In addition, the Group will also further expand its businesses other than food to diversify its sources of income, and will spare no effort in seeking cooperation and merger and acquisition opportunities for the Group to gain growth momentum and make full use of the company's financial strength.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this announcement, in the opinion of the Board, the Company has complied with the CG Code except the following deviations:

Under the code provision A.1.1 of the CG Code, the Board should meet regularly and the board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 31 December 2020, the Board held three Board meetings. The significant matters concerning the business activities and operation of the Group had been either duly reported, discussed and resolved at the three Board meetings or dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes.

Code provision A.2.1of the Code, which stipulates that the roles of chairman and chief executive officer should be separated. The joint-chairman and the chief executive officer of the Company is Mr. Liu Rongru. Nevertheless, the Board considers that this structure will not impair the balance of power and the authority of the Board. The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors, with independent non-executive Directors representing half of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board. Mr. Liu Rongru is the founder of the Group and he is responsible for the overall strategic planning and management of the Group. He has played an important role during the Group's expansion. Mr. Liu Rongru has extensive experience in the seafood industry, having been engaged in the seafood business for over 20 years. At present, the Board believes that it is beneficial to the management and development of the Group's businesses for Mr. Liu Rongru to be both the chairman and chief executive officer as it helps to facilitate the Board's decision-making.

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the Audit, Remuneration, Nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the Committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairmen and members of the Audit, Remuneration and Nomination committees of the Company could not attend the annual general meeting of the Company held in May 2020.

Code provision A.2.7 of the CG Code requires that the chairman of the Board shall at least annually hold meetings with Independent Non-executive Directors without the presence of other Directors. As Mr. Liu Rongru serves as the Joint-Chairman and Executive Director concurrently, the code provision does not apply and the Company deviates from such code provision. In addition, the Chairman of the Board is of the view that, the Independent Non-executive Directors can express their opinions to all Executive Directors more directly and effectively at the Board meetings, hence the Board is of the view that the deviation from the code provision does not have material impact on the operation of the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has since 22 June 2017 adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code during the year.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an Audit Committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The Audit Committee comprises three Independent Non-executive Directors of the Company, Mr. Pang Wai Ching, Mr. Liu Junting and Mr. Liu Dajin. Mr. Pang Wai Ching serves as the chairman of the Audit Committee of the Company. The chairman of the Audit Committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The Audit Committee of the Company has agreed with the external auditors of the Group, BDO Limited, and has reviewed the accounting principles and practices adopted by the Group and the consolidated results of the Group for the year ended 31 December 2020. The Audit Committee considered that the consolidated results of the Group for the year ended 31 December 2020 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 to the shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company will be held on Monday, 31 May 2021. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Monday, 31 May 2021, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712 -1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 24 May 2021.

PUBLICATION OF 2020 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinashenghaigroup.com), and the 2020 annual report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express my thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers, customers and bankers for their continuous support.

On behalf of the Board of
China Shenghai Group Limited
Liu Rongru
Joint-Chairman and Chief Executive Officer

Xiamen, the People's Republic of China, 29 March 2021

As at the date of this announcement, the non-executive director of the Company is Mr. Li Dongfan; the executive directors of the Company are Mr. Liu Rongru and Ms. Li Jiayin and the independent non-executive directors of the Company are Mr. Liu Dajin, Mr. Liu Junting and Mr. Pang Wai Ching.