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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 2020

FINANCIAL AND OPERATING SUMMARY FOR THE YEAR ENDED 31 DECEMBER

<i>(RMB million, except where otherwise stated)</i>	2020	2019	Change
Revenue	961.6	997.5	-3.6%
Profit attributable to owners of the Company	90.8	75.4	+20.3%
Basic earnings per share (RMB cents)	2.8	2.3	+21.7%
Dividend per share (HK cents)			
– Final	2.0	2.0	–
– Special (Final)	4.0	4.0	–
Net cash flows from operating activities	447.7	321.1	+39.4%
Total assets	3,130.2	3,083.5	+1.5%
Inventory turnover day – Raw materials (days)*	38.0	28.7	+9.3 days
Inventory turnover day – Finished goods & Work in progress (days)*	197.3	228.7	-31.4 days
Trade receivables turnover day (days)*	84.2	93.6	-9.4 days
Trade payables turnover day (days)*	118.5	87.6	+30.9 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 2020 (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 2021. 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
REVENUE	4	961,623	997,500
Cost of sales		<u>(722,577)</u>	<u>(765,312)</u>
Gross profit		239,046	232,188
Other income and gains, net	4	70,645	60,044
Selling and distribution expenses		(32,655)	(35,425)
Administrative expenses		(163,748)	(167,272)
Finance costs	6	(2,493)	(1,678)
Share of loss of an associate		<u>(2,357)</u>	<u>(4,002)</u>
PROFIT BEFORE TAX	5	108,438	83,855
Income tax expense	7	<u>(21,669)</u>	<u>(17,262)</u>
PROFIT FOR THE YEAR		<u>86,769</u>	<u>66,593</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial information		<u>2,606</u>	<u>(832)</u>
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		<u>2,606</u>	<u>(832)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>89,375</u>	<u>65,761</u>

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit attributable to:			
Owners of the Company		90,754	75,444
Non-controlling interests		(3,985)	(8,851)
		<u>86,769</u>	<u>66,593</u>
Total comprehensive income attributable to:			
Owners of the Company		93,360	74,612
Non-controlling interests		(3,985)	(8,851)
		<u>89,375</u>	<u>65,761</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	9		
Basic (<i>RMB cents per share</i>)		<u>2.8</u>	<u>2.3</u>
Diluted (<i>RMB cents per share</i>)		<u>2.8</u>	<u>2.3</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,091,925	1,125,619
Investment properties		5,813	7,901
Right-of-use assets		114,025	116,090
Intangible assets		–	36,104
Investment in an associate		26,608	28,965
Deferred tax assets		19,494	19,660
Long term prepayments and other receivables		16,917	8,410
Pledged deposit		70,000	50,000
Time deposits		280,000	220,000
		<hr/>	<hr/>
Total non-current assets		1,624,782	1,612,749
CURRENT ASSETS			
Inventories		459,233	472,411
Trade and bills receivables	10	168,350	275,071
Prepayments, other receivables and other assets		50,890	69,069
Financial asset at fair value through profit or loss		–	10,139
Pledged deposits		109,660	45,000
Cash and cash equivalents		717,285	599,063
		<hr/>	<hr/>
Total current assets		1,505,418	1,470,753
CURRENT LIABILITIES			
Trade and bills payables	11	130,838	78,553
Other payables and accruals		99,631	76,446
Interest-bearing bank borrowings		148,391	89,578
Lease liabilities		1,056	1,010
Tax payable		23,321	7,192
		<hr/>	<hr/>
Total current liabilities		403,237	252,779
		<hr/>	<hr/>
NET CURRENT ASSETS		1,102,181	1,217,974
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,726,963	2,830,723
		<hr/>	<hr/>

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities		1,803	392
Deferred income		28,418	31,574
Deferred tax liabilities		8,024	22,330
		<u> </u>	<u> </u>
Total non-current liabilities		38,245	54,296
		<u> </u>	<u> </u>
Net assets		2,688,718	2,776,427
		<u> </u>	<u> </u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	27,807	27,807
Reserves		2,660,911	2,744,635
		<u> </u>	<u> </u>
		2,688,718	2,772,442
		<u> </u>	<u> </u>
Non-controlling interests		–	3,985
		<u> </u>	<u> </u>
Total equity		2,688,718	2,776,427
		<u> </u>	<u> </u>

NOTES TO FINANCIAL INFORMATION

31 December 2020

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. It has 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

- (c) Amendments to HKAS 39, HKFRS 7 and HKFRS 9 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The Group did not have any rent concessions granted by lessor as a result of the COVID-19 pandemic during the year ended 31 December 2020 and accordingly, the amendment did not have any impact on the financial position and performance of the Group.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and 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 is also involved 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.

Geographical information

(a) *Revenue from external customer*

	2020 RMB’000	2019 RMB’000
Mainland China	856,757	902,526
Southeast Asia	51,412	45,537
Other countries/regions	53,454	49,437
	<u>961,623</u>	<u>997,500</u>

(b) Non-current assets

The non-current assets geographical information is not presented since over 90% of the Group's non-current assets are located in Mainland China.

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:

	2020 RMB'000	2019 RMB'000
Customer 1	124,619	159,467
Customer 2	118,084	165,160
Customer 3	115,799	110,566

4. REVENUE, OTHER INCOME AND GAINS, NET

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

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers		
Goods transferred at a point in time	961,497	997,357
Services transferred over time	126	143
	<u>961,623</u>	<u>997,500</u>
Other income		
Bank interest income	33,252	24,156
Other interest income	1,360	15,567
Sale of dried meat products	467	664
Government grants	30,564	8,746
Others	1,816	2,313
	<u>67,459</u>	<u>51,446</u>
Gains		
Foreign exchange gain, net	–	697
Gain on disposal of financial assets at fair value through profit or loss	2,260	3,819
Gain on disposal of right-of-use assets	926	3,841
Fair value gain on a financial asset at fair value through profit or loss	–	139
Fair value gain on investment properties	–	102
	<u>3,186</u>	<u>8,598</u>
Total other income and gains, net	<u>70,645</u>	<u>60,044</u>

5. PROFIT BEFORE TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Employee benefit expense (including directors' remuneration):		
Wages and salaries	146,227	154,530
Retirement benefit contributions	24,464	25,234
	<u>170,691</u>	<u>179,764</u>
Cost of inventories sold	613,771	672,112
Depreciation of property, plant and equipment	98,715	94,231
Depreciation of right-of-use assets	4,201	3,948
Amortisation of intangible assets	36,104	51,705
Impairment of an investment in an associate	–	14,422
Changes in fair value of investment properties	2,088	(102)
Lease payments not included in the measurement of lease liabilities	2,709	3,029
Loss on disposal of items of property, plant and equipment, net	540	1,945
Impairment of property, plant and equipment	7,096	–
Impairment/(reversal of impairment) of trade receivables, net	4,519	(3,916)
Write-off of inventories	–	5,709
Provision against obsolete and slow-moving inventories	26,015	4,583
	<u><u>26,015</u></u>	<u><u>4,583</u></u>

6. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank loans	2,376	1,643
Interest on lease liabilities	117	35
	<u>2,493</u>	<u>1,678</u>

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. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

A subsidiary located in Wuzhou, Guangxi in the Western Region of China is subject to the region's preferential corporate income tax ("CIT") rate of 15% as set out in the Announcement of the State Administration of Taxation on Issues Concerning Enterprise Income Tax Related with Enhancing the Western Region Development Strategy (Announcement [2012] No. 12).

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current – PRC	34,336	21,467
Current – Hong Kong	1,467	1,353
Deferred tax	<u>(14,134)</u>	<u>(5,558)</u>
Total tax charge for the year	<u><u>21,669</u></u>	<u><u>17,262</u></u>

8. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Final dividend proposed subsequent to the reporting period – HK2.0 cents (2019: HK2.0 cents) per ordinary share	54,554	58,703
Final special dividend proposed subsequent to the reporting period – HK4.0 cents (2019: HK4.0 cents) per ordinary share	<u>109,109</u>	<u>117,406</u>
	<u><u>163,663</u></u>	<u><u>176,109</u></u>

The final dividend and special dividend for the year ended 31 December 2020 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 RMB90,754,000 (2019: RMB75,444,000) and the weighted average number of 3,230,480,000 ordinary shares (2019: 3,230,539,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

10. TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	139,190	205,305
Due from related companies	<u>1,108</u>	<u>2,677</u>
	140,298	207,982
Bills receivable	<u>54,835</u>	<u>89,353</u>
	195,133	297,335
Impairment	<u>(26,783)</u>	<u>(22,264)</u>
	<u>168,350</u>	<u>275,071</u>

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	58,072	126,445
1 month to 3 months	56,797	94,016
3 months to 6 months	43,638	49,448
6 months to 1 year	3,207	2,321
Over 1 year	<u>6,636</u>	<u>2,841</u>
	<u>168,350</u>	<u>275,071</u>

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	47,559	37,162
1 to 2 months	18,637	1,981
2 to 3 months	15,854	7,044
Over 3 months	29,931	27,325
Over 6 months	18,857	5,041
	<u>130,838</u>	<u>78,553</u>

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

12. SHARE CAPITAL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
3,230,480,000 (2019: 3,230,480,000) ordinary shares of HK\$0.01 each	<u>32,305</u>	<u>32,305</u>
Equivalent to RMB'000	<u>27,807</u>	<u>27,807</u>

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 <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Equivalent share premium <i>RMB'000</i>	Equivalent total <i>RMB'000</i>
At 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, 1 January 2020 and 31 December 2020	<u>3,230,480,000</u>	<u>32,305</u>	<u>10,233</u>	<u>27,807</u>	<u>98,081</u>	<u>125,888</u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2020 (the “Year”), as bombarded by the COVID-19 epidemic, the global economy was on a downward trend, and China’s economy and meat industry were also significantly affected. With the remarkable results achieved in normalizing epidemic control domestically, the full resumption of work and production in China were taken place. Under the background of easing monetary policy of “creating an enabling environment” and the implementation of the “dual circulation” strategy to expand domestic demand and stimulate consumption, the domestic economy had recovered rapidly, and the national economy continued to recover steadily, which enabled China to become the only major economy in the world to achieve positive growth.

According to the National Bureau of Statistics of the People’s Republic of China (the “PRC”), in 2020, China’s gross domestic product grew by 2.3% year-on-year. With the rapid recovery in consumption, although total retail sales of consumer goods declined by 3.9% when compared to last year, total retail sales of consumer goods in the fourth quarter grew by 4.6% year-on-year, representing an increase of 3.7 percentage points when compared to the third quarter. The output of pork, beef, mutton and poultry was 76.39 million tons, down by 0.1% year-on-year, representing a shrinking reduction of 10.1% as compared with the decrease of last year, among which pork output was 41.13 million tons, decreased by 3.3% year-on-year, representing a shrinking reduction of 18% as compared with the decrease of last year. With the recovery of China’s economy and the rapid recovery in consumption, the fundamentals of the domestic collagen sausage casings market have also begun to improve.

Facing the complicated and volatile environment both domestically and abroad, the Group adopted a series of measures centering on the theme of “stabilizing quality, stabilizing market, achieving high-quality development”. Firstly, the Group continued to focus on product quality and stabilize the market of collagen sausage casings. Secondly, the Group accelerated the automation and intelligent transformation of machinery and equipment to improve production efficiency. Thirdly, the Group speeded up the development of new products. Fourthly, the Group accelerated the pace of product upgrading to improve economic efficiency. Fifthly, the Group further strengthened the assessment and incentive mechanism to fully mobilize the enthusiasm of all staffs. Sixthly, the Group implemented a combined online and offline sales model for new products to facilitate the diversified development of the Group’s collagen products. The Group actively responded to changes in the external market, and vigorously explored new markets during the Year, constantly made self-adjustment to promote the overall development of the Group’s production and operation conditions in a positive direction, and provide shareholders with better investment returns.

BUSINESS REVIEW

Thanks to the joint efforts of its staffs, the Group has overcome the impact of COVID-19 outbreak and the influence of the decline in pork, beef, mutton and poultry production for the Year, and the Group was able to maintain its leading position in the domestic collagen sausage casing market. The overall production and operation conditions of the Company improved, other industry layout and business transformation work of the Group progressed one by one as planned and the operating income of the Group's subsidiaries achieved positive growth as compared with 2019 (the "Prior Year"). The revenue of three new products, namely, collagen food, skincare products and medicinal collagen, grew significantly as compared to the Prior Year, and the collagen sausage casings sector has also begun to bottom out.

Owing to fierce market competition, customers' requirements for products also increased. The Group strengthened the communication with customers and improved the provision of services to ensure the stability of key customers and high-end sausage castings quality, and gained customer recognition, so as to promote the sales of high-end sausage casings products and maintain the position of the Group's collagen sausage casings in the domestic market during the Year. At the same time, significant progress was made in the development of new industries and new products in the "Thirteenth Five-Year Plan" layout, and market sales had gradually increased. In addition, the Group received government financial support for scientific research projects, resumption of work and production, and maintaining stable employment. During the Year, the Group continued to 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 kept on improving its product quality, continued to deepen and optimize performance management, added performance evaluation indicators for various departments, further perfected performance management systems, and improved food safety, environmental protection and production safety management. At the same time, to promote the development of new industries and new products, the Group strengthened the construction of corporate research and development platforms, in which a group of highly-educated technical personnel were gathered together.

During the Year, the Group gained recognition for its outstanding performance, including the titles of "Top 10 Packaging Enterprises in China's Meat Food Industry" (中國肉類食品行業包裝十強企業), "Guangxi Top 100 High-Tech Enterprises" (廣西高新技術企業百強), "Guangxi Leading Industrial Enterprise" (廣西工業龍頭企業), "Guangxi Top 100 Private Manufacturers" (廣西民營企業製造業百強) and "Guangxi Most Competitive Private Enterprise" (廣西最具競爭力民營企業). In addition, the Group maintained the titles as "National High-Tech Enterprise" (國家高新技術企業), "China's Leading Intellectual Property Enterprise" (國家知識產權優勢企業), Guangxi Model Technologically Innovative Enterprise (廣西技術創新示範企業) and "Key Leading Enterprise of Guangxi Agricultural Industrialization" (廣西農業產業化重點龍頭企業).

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 the “Thirteenth Five-Year Plan” layout of the great health industry, including various sectors covering collagen food products, collagen skincare products and collagen medical devices, and also market expansion, with the results gradually emerging.

During the Year, the Group achieved outstanding results in new product research and development. For collagen food products, the collagen rice noodles, collagen drinks and bovine collagen developed by the Group have achieved initial market launch and promotion. The newly added product, beef tendon, had entered its trial marketing stage and gained recognition from consumers.

For collagen skincare products, the Group changed its marketing method according to market development trend and adopted an online-oriented marketing measures supplemented by offline marketing to promote the sales of collagen masks, collagen extracts and collagen superior, and gradually gained consumer recognition. At the same time, the Group accelerated the development and market promotion of skin soap series products and natural liquid soap products.

For collagen medical devices, Guangdong Victory Biotech Co., Ltd. (“Guangdong Victory”) has filed to the Guangdong provincial authorities regarding the corporate standards on six products including 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 obtained the dual certification of ISO13485 and ISO22442 from the European Union and are launched for sale on the market. During the Year, the Group obtained the production permits for 2 Type I medical device products, including “band-aids” (hydrogel dressing) and “liquid dressing”. The highly reactive collagen-based bone repairing biomaterials (artificial bone) (高活性膠原基骨修復生物材料(人工骨)) had completed its technical indicators testing and clinical trial preliminary works were in progress. Wuzhou Victory Biotech Co., Ltd. (“Wuzhou Victory”) has passed the first round of EU ISO13485 certification, and will obtain the certificate after review.

For healthcare products, the 16 new products developed by Ferguson (Wuhan) Biotech Co., Ltd. (“Ferguson Wuhan”), in which the Group has holding shares, including DHA soft capsules, methyl tetrahydrofolic acid tablets (amino sugar salt), glucosamine tablets, vitamin AD soft capsules, vitamin AE soft capsules are going through registration material declaration and technical review. The market channel building of Ferguson (Wuhan) has achieved preliminary results.

As at 31 December 2020, the Group had the following patents:

	Granted and still effective	Accepted and pending approval
National Intellectual Property Administration of the PRC	75	17
Taiwan Intellectual Property Office	2	–
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. The Group has made more efforts in the development of imitated natural sausage casings and adopted new processes and new methods. The new products have completed mass production and market promotion and have gained recognition from customers, and they will replace pig sausage casings and become a new growth point in the market. At the same time, the Group also made tremendous efforts in enhancing internal management, increasing the standard 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 800 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.

For collagen food products, the Group will continue to expand its production capacity of collagen rice noodles, bovine collagen ingredients and collagen drinks. The Group will speed up the improvement and repair works of various equipment and facilities in production workshop, and strive to achieve full production capacity in the second quarter of 2021. The Group will also accelerate the installation and commissioning of equipment in rice noodle workshop, and strive to enter the trial production stage in the first quarter of 2021 and conduct product sales in the second quarter of 2021. The implementation of these tasks will lay a solid foundation for the further growth of the Group's revenue in 2021.

For collagen skincare products, the Group will strengthen the development of “Luxianna” product chain and increase the development of several “COLL-FULL” new products series and promote the sales of multiple products. Meanwhile, the Group will also put more efforts in advertising and sales planning, and fully promote online (e-commerce, micro commerce) and offline sales.

For collagen medical devices, the Group will further intensify the research on medical collagen to produce products with higher purity, better activity and lower cost. The Group will speed up the clinical trial of the Type III medical device of the “collagen bone repairing biomaterials” (artificial bone) (膠原蛋白骨修復材料(人工骨)) and accelerate the product testing of “collagen hemostatic sponge” and endeavour to enter clinical trials as soon as possible. In addition, Wuzhou Victory will strive to obtain the dual certification of ISO13485 and ISO22442 of the European Union in the first half of 2021. The Group will also manage to increase the production and commissioning and open the sales channels of medical collagen raw materials and the approved type I medical device products, including “hydrogel dressing” (水膠敷料) and “liquid dressing” (液體敷料), 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 of the Group and further broaden the application of collagen technology to generate better returns for the shareholders.

FINANCIAL ANALYSIS

Revenue

Revenue decreased by approximately 3.6% to approximately RMB961.6 million for the Year from approximately RMB997.5 million for the Prior Year. Due to the impact of the COVID-19 epidemic, some customers delayed the resumption of work after Chinese New Year during the Year, which resulted a decrease in products demand, however, the increasing recognition of high-end casings by customers offset the decrease in sales to a certain extent.

Cost of sales

Cost of sales decreased by approximately 5.6% to approximately RMB722.6 million for the Year from approximately RMB765.3 million for the Prior Year, including the provision and write-off of inventory of approximately RMB26.0 million, as compared to provision and write-off of approximately RMB10.3 million for the Prior Year. Excluding such items, the cost of sales for the Year decreased by approximately 7.7% as compared to the Prior Year. In addition, during the Year, as the Group continued to actively pursue production automation and energy conservation, the charges for energy and direct labor cost both recorded a decrease. The costs of raw materials for the Year decreased by approximately 4.3% to approximately RMB320.8 million as compared with that of the Prior Year. In addition, the charges for energy decreased by approximately 11.1% to approximately RMB147.0 million. The direct labor cost decreased by approximately 7.5% to approximately RMB119.7 million.

Gross profit

Gross profit increased by approximately 3.0% to approximately RMB239.0 million for the Year from approximately RMB232.2 million for the Prior Year. The gross profit margin increased from approximately 23.3% for the Prior Year to approximately 24.9% for the Year.

Other income and gains

Other income and gains increased by approximately 17.7% to approximately RMB70.6 million for the Year from approximately RMB60.0 million for the Prior Year. The Group received government subsidies of approximately RMB30.6 million during the Year, representing an increase of approximately RMB21.8 million over the Prior Year, which was mainly for the reason that, during the period of the COVID-19 epidemic, the Group received employment stabilization subsidies for continuing the production during Chinese New Year and obtained unemployment insurance emergency rebates to stabilize employment. The subsidies and rebates have been received from the PRC government.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 7.8% to approximately RMB32.7 million for the Year from approximately RMB35.4 million for the Prior Year. Selling and distribution expenses as a percentage of revenue decreased to approximately 3.4% for the Year from approximately 3.6% for the Prior Year.

Administrative expenses

Administrative expenses decreased by approximately 2.1% to approximately RMB163.7 million for the Year from approximately RMB167.3 million for the Prior Year. The Group made charitable donations of approximately RMB8.8 million during the Year, representing an increase of approximately RMB5.9 million from the Prior Year, mainly to support the fight against the COVID-19 epidemic.

For the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets are amortized over five years and the amortization of intangible assets has been completed in the third quarter of the Year. The related amortization expense was approximately RMB35.9 million and RMB50.8 million for the Year and the Prior Year, respectively. After deducting non-controlling interests and deferred tax of Guangdong Victory, the effect of the related amortization expense on the net profit of the Group was approximately RMB21.6 million and RMB30.4 million for the Year and the Prior Year, respectively. The above factor which had a relatively material impact on the net profit for the Year and the Prior Year was non-cash items and the cash flow of the Group was not affected.

Finance costs

Finance costs increased by approximately 48.6% to approximately RMB2.5 million for the Year from approximately RMB1.7 million for the Prior Year, which was mainly due to the increase of bank borrowings.

Share of loss of an associate

The share of loss of an associate for the Year amounted to approximately RMB2.4 million, which was mainly due to the share of loss of Ferguson Wuhan during the Year. The production of Ferguson Wuhan was suspended for some time during the Year due to COVID-19 epidemic.

Income tax expenses

Income tax expenses were approximately RMB21.7 million for the Year, as compared to approximately RMB17.3 million for the Prior Year. The Company's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd. ("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 20.0% and approximately 20.6% of profit before tax, respectively for the Year and the Prior Year.

Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Year was approximately RMB4.0 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 increased by 20.3% from approximately RMB75.4 million for the Prior Year to approximately RMB90.8 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 2020, the cash and cash equivalents together with pledged deposits and time deposits amounted to approximately RMB1,176.9 million, representing an increase of approximately RMB262.8 million from the end of 2019. Among these balances, approximately 95.7% was denominated in Renminbi, and the remaining 4.3% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 31 December 2020, the total bank borrowings of the Group amounted to approximately RMB148.4 million, representing an increase of approximately RMB58.8 million (as at 31 December 2019: approximately RMB89.6 million), and all the bank borrowings were wholly repayable within one year. Total bank borrowings denominated in RMB was approximately RMB64.9 million, and total bank borrowings denominated in U.S. dollars was approximately US\$12.8 million (equivalent to approximately RMB83.5 million).

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 RMB1,028.5 million as at 31 December 2020, representing an increase of approximately RMB204.0 million as compared to that at the end of 2019. The debt-to-equity ratio was 5.5% as at 31 December 2020 (as at 31 December 2019: 3.2%). The debt-to-equity ratio was calculated by dividing the total bank and other borrowings by the total equity.

Cash flows

During the Year, the net cash inflow of approximately RMB447.7 million was generated from operating activities, while investing activities and financing activities utilized approximately RMB411.1 million and RMB116.8 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 pledged deposits 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 2019.

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 RMB80.4 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 31 December 2020 amounted to approximately RMB117.7 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2021 amounted to approximately RMB100.0 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 2020, pledged bank deposits amounted to approximately RMB179.7 million in total.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group was not aware of any material contingent liabilities.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year.

EVENTS AFTER THE YEAR

There were no important events affecting the Group that have occurred since 31 December 2020.

HUMAN RESOURCES

As at 31 December 2020, the Group hired a total of approximately 2,530 contract employees (as at 31 December 2019: 2,480). During the Year, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB170.7 million (2019: approximately RMB179.8 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 into 2021, the Central Economic Work Conference made economic deployment, which emphasized that it is necessary to accelerate the construction of a new development layout featuring domestic circulation as the mainstay, as well as the mutual facilitation of domestic and international dual circulation, and firmly focus on the main line of supply-side structural reform. China needs to keep economic performance within a reasonable range, and continue to do better in “Six Stabilities” and “Six Guarantees”. It must rely on innovation to improve the development standard of the real economy and promote high-quality development of the manufacturing sector. China shall fully tap the domestic market potential, and increase consumption with effective investment to improve people’s livelihood. With the support of a series of national policies, the domestic economy will develop steadily, which is of tremendous benefits to real business enterprise. In addition, recently, Guangxi promulgated policies and measures such as Three-year Action Plan for Promoting Industrial Revitalization (《關於推進工業振興三年行動方案》), Certain Policies and Measures for Promoting Industrial Revitalization (《關於推進工業振興若干政策措​​施》), and Catalogue of Industries Encouraged to Develop in the Western Region (《西部地區鼓勵類產業目錄》). Wuzhou municipal government also launched the activity of promoting industrial revitalization and the “Three-Year Three Projects”. Such policies and measures have released a strong signal to accelerate industrial development, and the Group will usher in a good opportunity for a new round of development.

2021 is going to be the first year for the Group to implement the “Fourteenth Five-Year Plan”. However, the Group is exposed to the 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, the Group still has the conditions and confidence to kick a good start in the “Fourteenth Five-Year Plan” and obtain flourish results. In addition to ushering in a good opportunity for a new round of development, the Group also has quite good development advantages, including (1) All products of the Group are listed in the national and local product catalogue encouraged to develop, and can enjoy a number of preferential policies and obtain more support. (2) With the stringent requirements of environmental protection, the production of natural sausage casings is restricted and the price is high, hence the demand for high-end collagen sausage casings to replace pig sausage casings will further increase. In recent years, these new products developed by the Group have been recognized by customers, bringing us good development potential. (3) During the “Thirteenth Five-Year Plan” period, the Group implemented the diversified development strategy and invested a lot of manpower and capital to carry out research on new products and new technologies, which made the Group transform from collagen business into three major sectors covering collagen food products, collagen skincare products and collagen medical devices, and the research outcome and benefits of the three sectors will gradually emerge, laying a solid foundation for the development of the Group during the “Fourteenth Five-Year Plan” period. (4) With the implementation of the diversified development strategy, the technology knowhow generated from investment and mergers during the “Thirteenth Five-Year Plan” period has been fully amortized in the third quarter of 2020, and the economic benefits of the Group will gradually improve. In view of the above opportunities and advantages, it is expected that in

2021, the collagen sausage casings and new industries will increase the revenue and efficiency of the Group.

With the foundation laid for the five years of the “Thirteenth Five-Year Plan” period, the Group has gradually formed the great health industry with collagen technology as its core and the three major sectors of collagen food products, collagen skincare products and collagen medical devices as its main development direction. During the “Fourteenth Five-Year Plan” period, the Group will strive to achieve new success of substantial increase in the proportion of high-end sausage casings in respect of collagen sausage casings, make new contributions in respect of collagen healthcare products, achieve new performance in respect of collagen skincare products, and seek new breakthroughs in respect of the collagen medical devices.

In 2021, the production and operation of the Group will mainly focus on “seizing opportunities to promote new products and making new achievements in product diversification in an all-round manner” to speed up the implementation of product diversification strategies, increase efforts to develop new products and expand new markets. The Group will continue to take stabilizing the quality of collagen sausage casings products as its top priority and expand the collagen sausage casings market. In addition, the Group will also speed up the automation transformation of machinery and equipment to improve production efficiency, and fully start the production and sales of new products to improve economic efficiency. In addition, the Group will also strengthen management awareness and management responsibilities, enhance supervision, standardize behaviors, and strive to seize opportunities to improve quality and efficiency, with an aim to building the Group into a world-class collagen raw materials supplier.

In 2021, the Group will carry out its work by centering on “developing new products, improving quality and increasing efficiency” in the sausage casings industry. Firstly, the Group will continue to take product quality as its top priority. Secondly, the Group will transform and improve the collagen sausage casings production line to improve its production efficiency. Thirdly, the Group will accelerate the technological transformation of automated and intelligent production. Fourthly, the Group will increase the proportion of high-quality sausage casings. Moreover, the Group will continue to upgrade environmental protection equipment and facilities to improve its environmental protection processing capacity to meet production needs. The Group will strictly follow the requirements of laws and regulations to ensure food safety and strengthen the management of production safety, perform a good job in various preventive works to reduce safety risks.

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 shareholders whose names appear on the register of members of the Company on 8 June 2021 (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 2021 (Tuesday).

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 28 May 2021 (Friday), the register of members of the Company will be closed from 25 May 2021 (Tuesday) to 28 May 2021 (Friday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 24 May 2021 (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 3 June 2021 (Thursday) to 8 June 2021 (Tuesday), both days inclusive. The record date will be 8 June 2021 (Tuesday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 2 June 2021 (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 dividend 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

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 during the Year.

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 2021

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.