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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 2023

FINANCIAL AND OPERATING SUMMARY FOR THE YEAR ENDED 31 DECEMBER

<i>(RMB million, except where otherwise stated)</i>	2023	2022	Change
Revenue	1,110.4	1,032.2	+7.6%
Profit attributable to owners of the parent	31.2	23.6	+32.6%
Basic earnings per share (RMB cents)	1.0	0.7	+42.9%
Dividend per share (HK cents)			
– Final	2.0	2.0	–
– Special (Final)	2.0	4.0	-50.0%
Net cash flows from operating activities	176.4	106.0	+66.4%
Total assets	2,957.3	3,354.4	-11.8%
Inventory turnover day – Raw materials (days)*	37.7	39.8	-2.1 days
Inventory turnover day – Finished goods & Work in progress (days)*	156.7	152.5	+4.2 days
Trade receivables turnover day (days)*	64.0	70.2	-6.2 days
Trade payables turnover day (days)*	72.1	51.0	+21.1 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 2023 (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 (the “Audit Committee”) and approved by the Board on 26 March 2024. The Board is pleased to propose a final dividend of HK2.0 cents per share and a special final dividend of HK2.0 cents per share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	<i>Notes</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
REVENUE	4	1,110,412	1,032,155
Cost of sales		<u>(939,556)</u>	<u>(871,690)</u>
Gross profit		170,856	160,465
Other income and gains, net	4	104,111	62,291
Selling and distribution expenses		(34,963)	(33,757)
Administrative expenses		(151,976)	(153,054)
Finance costs	6	(9,111)	(9,249)
Share of loss of an associate		(2,318)	(777)
(Impairment)/reversal of impairment of trade and bills receivables		<u>(8,677)</u>	<u>9,763</u>
PROFIT BEFORE TAX	5	67,922	35,682
Income tax expense	7	<u>(38,379)</u>	<u>(14,212)</u>
PROFIT FOR THE YEAR		<u>29,543</u>	<u>21,470</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>5,937</u>	<u>8,144</u>
NET OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>5,937</u>	<u>8,144</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>35,480</u>	<u>29,614</u>

	<i>Note</i>	2023 RMB'000	2022 <i>RMB'000</i>
Profit attributable to:			
Owners of the parent		31,242	23,565
Non-controlling interests		(1,699)	(2,095)
		<u>29,543</u>	<u>21,470</u>
Total comprehensive income attributable to:			
Owners of the parent		37,179	31,709
Non-controlling interests		(1,699)	(2,095)
		<u>35,480</u>	<u>29,614</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
Basic (<i>RMB cents per share</i>)		<u>1.0</u>	<u>0.7</u>
Diluted (<i>RMB cents per share</i>)		<u>1.0</u>	<u>0.7</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,003,516	1,006,013
Investment properties		14,231	15,870
Right-of-use assets		107,316	111,906
Investment in an associate		3,128	17,500
Deferred tax assets		13,903	25,843
Prepayments, other receivables and other assets		50,921	52,037
Pledged deposits		–	60,000
Time deposits		134,000	95,500
		<hr/>	<hr/>
Total non-current assets		1,327,015	1,384,669
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		504,482	496,280
Trade and bills receivables	<i>10</i>	182,665	206,975
Prepayments, other receivables and other assets		53,155	53,850
Derivative financial instruments		–	3,100
Tax recoverable		18	1,431
Pledged deposits		65,955	254,156
Cash and cash equivalents		824,006	953,950
		<hr/>	<hr/>
Total current assets		1,630,281	1,969,742
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	<i>11</i>	101,658	85,003
Other payables and accruals		149,084	161,322
Interest-bearing bank borrowings		272,842	535,242
Lease liabilities		3,271	3,394
Tax payable		27,082	20,765
		<hr/>	<hr/>
Total current liabilities		553,937	805,726
		<hr/>	<hr/>
NET CURRENT ASSETS		1,076,344	1,164,016
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,403,359	2,548,685
		<hr/>	<hr/>

		2023	2022
	<i>Note</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities		1,254	2,089
Deferred income		19,504	20,941
Deferred tax liabilities		<u>6,385</u>	<u>6,213</u>
Total non-current liabilities		<u>27,143</u>	<u>29,243</u>
Net assets		<u>2,376,216</u>	<u>2,519,442</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	27,807	27,807
Reserves		<u>2,354,839</u>	<u>2,496,366</u>
		2,382,646	2,524,173
Non-controlling interests		<u>(6,430)</u>	<u>(4,731)</u>
Total equity		<u>2,376,216</u>	<u>2,519,442</u>

NOTES TO FINANCIAL INFORMATION

31 December 2023

1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the “Company”) was incorporated in the Cayman Islands on 24 February 2009 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, collagen food products, skin care products and medical devices.

2.1 BASIS OF PREPARATION

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”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group’s financial statements.

- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

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 products and medical devices.

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

Geographical Information

(a) *Revenue from external customers*

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Chinese Mainland	961,553	898,956
Asia (excluding Chinese Mainland)	99,064	67,483
Other countries/regions	49,795	65,716
	<u>1,110,412</u>	<u>1,032,155</u>

(b) *Non-current assets*

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

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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Customer 1	206,220	185,654
Customer 2	<u>122,897</u>	<u>149,546</u>

4. REVENUE, OTHER INCOME AND GAINS, NET

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue from contracts with customers		
Goods transferred at a point in time	1,110,315	1,031,925
Services transferred over time	<u>97</u>	<u>230</u>
	<u>1,110,412</u>	<u>1,032,155</u>
Other income		
Bank interest income	39,693	46,136
Government grants	10,574	7,892
Rental income	2,174	2,506
Sale of auxiliary materials	2,325	–
Others	<u>930</u>	<u>545</u>
	<u>55,696</u>	<u>57,079</u>
Gains		
Gain on early termination of a lease contract	21	–
Fair value gain on derivative financial instrument	3,467	5,212
Gain on disposal of intangible assets	39,726	–
Gain on disposal of items of property, plant and equipment, net	<u>5,201</u>	<u>–</u>
	<u>48,415</u>	<u>5,212</u>
Total other income and gains, net	<u>104,111</u>	<u>62,291</u>

5. PROFIT BEFORE TAX

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Employee benefit expense (including directors' remuneration):		
Wages and salaries	178,607	146,059
Retirement benefit contributions	40,882	39,495
	<u>219,489</u>	<u>185,554</u>
Auditor's remuneration	2,836	2,836
Cost of inventories sold	841,693	766,286
Depreciation of property, plant and equipment	93,575	94,544
Depreciation of right-of-use assets	7,396	6,640
Changes in fair value of investment properties	1,639	1,147
Fair value gain on derivative financial instruments		
– transactions not qualifying as hedges	(3,467)	(5,212)
Lease payments not included in the measurement of lease liabilities	377	341
(Gain)/loss on disposal of items of property, plant and equipment, net	(5,201)	299
Gain on disposal of intangible assets	(39,726)	–
Impairment of financial assets included in prepayments, other receivables and other assets	–	6,348
Impairment of property, plant and equipment	2,558	–
Impairment/(reversal of impairment) of trade receivables, net	8,677	(9,763)
Impairment of an investment in an associate	12,054	6,899
Write-off of inventories	5,731	18,246
(Reversal of provision)/provision against obsolete and slow-moving inventories	(3,696)	5,304
Foreign exchange differences, net	4,584	16,894
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	272	81
	<u>272</u>	<u>81</u>

6. FINANCE COSTS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on bank loans	8,853	8,895
Interest on lease liabilities	258	354
	<u>9,111</u>	<u>9,249</u>

7. INCOME TAX EXPENSE

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 operated.

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 (2022: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

A subsidiary located in Wuzhou, Guangxi in the Western Region of China is entitled to the region's preferential corporate income tax ("CIT") rate of 15% as set out in the Announcement of the State Taxation Administration and the National Development and Reform Commission on the continuation of preferential enterprise income tax policies in the western region (Announcement No.23 [2020]).

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current – PRC		
Charge for the year	24,476	25,510
Overprovision in prior year	–	(1,662)
Current – Hong Kong		
Charge for the year	1,218	–
Underprovision/(overprovision) in the prior year	572	(401)
Deferred tax	12,113	(9,235)
	<u>38,379</u>	<u>14,212</u>
Total tax charge for the year	<u>38,379</u>	<u>14,212</u>

8. DIVIDENDS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Final dividend proposed subsequent to the reporting period		
– HK2.0 cents (2022: HK2.0 cents) per ordinary share	58,605	56,279
Final special dividend proposed subsequent to the reporting period		
– HK2.0 cents (2022: HK4.0 cents) per ordinary share	58,605	112,559
	<u>117,210</u>	<u>168,838</u>

The final dividend and special dividend for the year ended 31 December 2023 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 ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB31,242,000 (2022: RMB23,565,000) and the weighted average number of 3,230,480,000 (2022: 3,230,480,000) ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

10. TRADE AND BILLS RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	130,370	143,218
Due from related companies	1,323	1,557
	<u>131,693</u>	<u>144,775</u>
Bills receivable	89,896	92,447
	<u>221,589</u>	<u>237,222</u>
Impairment	(38,924)	(30,247)
	<u><u>182,665</u></u>	<u><u>206,975</u></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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 month	59,444	75,324
1 month to 3 months	61,944	74,875
3 months to 6 months	46,709	48,381
6 months to 1 year	9,083	3,998
Over 1 year	5,485	4,397
	<u><u>182,665</u></u>	<u><u>206,975</u></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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 month	32,088	31,720
1 to 2 months	14,190	9,261
2 to 3 months	18,630	13,651
3 to 6 months	18,954	24,928
Over 6 months	17,796	5,443
	<u>101,658</u>	<u>85,003</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

	2023 <i>HK\$'000</i>	2022 <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 (2022: 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 2022,						
31 December 2022,						
1 January 2023 and						
31 December 2023	<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

During the Year, the People's Republic of China (the "PRC" or "China") economy experienced unprecedented difficulties and pressures due to multiple factors such as global trade frictions and internal structural adjustments. From crisis to turning point, although growth had slowed down, the market gradually showed a stable overall trend, and the resumption of normalized economic and social activities had brought positive signals to the industry.

According to preliminary data calculations from the National Bureau of Statistics of China, the gross domestic product (GDP) increased by 5.2% year-on-year in 2023, indicating that China remains the largest engine of global economic growth. The contribution rate of final consumption expenditure to economic growth for the whole year reached 82.5%, highlighting the role of consumption as the main engine. Leveraging the gradual recovery of the global economy and the active adjustment of a series of policies to boost consumption, the consumption structure has always maintained a trend of updating and upgrading, catalysing new consumption forms and modes and becoming an important force to drive economic recovery. In the long run, the sustained efforts of consumption boost policies and the gradual economic recovery will drive the sustained growth of demand in the collagen casing market of China.

BUSINESS REVIEW

As an emerging strategic industry in the 21st century, sectors such as nutrition, health care and medical industries have a huge demand for collagen especially. The development and application of collagen as the mainstream of the grand health industry are experiencing rapid growth in both domestic and foreign markets. Numerous products utilizing collagen as raw materials have been listed in the national emerging strategic industries catalog.

Collagen Sausage Casings

During the first half of the Year, as affected by factors such as rising raw material prices, reduced supply of raw materials, increased trial production costs after production line transformation, and increased electricity rates, the production volume declined and production costs increased, resulting in lower gross profit margins and a decline in the profit in the first half of the Year as compared to the same period last year. However, through the efforts of the Group's staff in the second half of the Year, both sales volume and sales revenue of sausage casings in the Year went up as compared to the same period last year, with particularly notable growth of 16.9% in exported product sales, resulting in overall stability and an upward trend in production and operation, with the total domestic and overseas sales volume of sausage casings increased by approximately 9.0%. The Group continued to adjust its product structure, its technology became more mature, which enabled it to expand the proportion of medium and large-sized diameters products and gain access to the market for high-end products, thus progressively meeting the needs of the sausages industry in adjusting its product structure,

thus achieving a good momentum of growth in both the domestic and foreign markets. The Group is committed to product quality which was implemented in all aspects of production. Through process reengineering and equipment reengineering, the Group has overcome the impact of raw material quality and improved product suitability.

In addition, the Group has dismantled the old production lines with high energy consumption, low output and high maintenance costs, and carried out expansion and transformations of the existing ones, expanding the total number of production lines to 300 during the Year from 200 at the beginning of the Year. While expanding the production capacity of sausage casings, the Group has been promoting the standardisation of equipment reengineering, including the technical transformation of production lines, equipment and components for standardisation, which will be conducive to the standardization of management, production efficiency enhancement, lowering of production costs and maintenance costs of equipment, etc. During the Year, the Group had invested approximately RMB110.7 million in capital expenditures, mainly for the expansion of production capacity and equipment transformations, which enhanced production capacity, and the production lines were required to undergo trial production to test their quality and effectiveness, and raw materials, auxiliary materials and energy consumed for the trial production were higher than those under normal production, which in turn increased the average unit cost of production. During the Year, gross profit would have increased by approximately RMB52.7 million without the related trial production expenses. To further enhance work efficiency, the Group also stepped up its efforts in implementing the technical transformation of production line automation and gradually improving its enterprise information system, laying a stronger foundation for standardised and information-based management of the Group in 2024, reducing the reliance on labour and enhancing production efficiency.

Other Products

With the deepened implementation of the “Healthy China 2030” Planning Outline, as a sunrise industry, the grand health industry enjoys enormous development potential. It is a national emerging strategic industry with the engagement of various “new power and new energy”. By focusing on the grand health industry, it will bring a strong driving force to the development of China’s health industry. During the Year, the total sales revenue of collagen food products, skincare products and medical devices increased by approximately 23.0% as compared with the same period last year.

For collagen food products, the Group’s products already include collagen rice noodles, collagen drinks, beef tendon, and collagen oat drinks, oatmeal, and oat porridge. The Group has made various preparations for mass production, further expanded product publicity and promotion, and opened up product sales channels, making better progress in product sales.

For collagen skincare products, the Group further introduces new products such as collagen masks and daily skincare products under its own brands “Coll-Full (高肌樂)”, and continuously upgrades the formulae of these products while improving the supporting of production capacity for each product.

For collagen medical devices, Guangdong Victory Biotech Co., Ltd. (“Guangdong Victory”) and Wuzhou Victory Biotech Co., Ltd. (“Wuzhou Victory”) have obtained the dual certifications of ISO13485 and ISO22442 from the European Union. During the Year, sales revenue of medical collagen raw materials and its related products increased by approximately 164.5% as compared to last year.

The Group’s “Preparation Method of Low Endotoxin Collagen (低內毒素膠原蛋白的製備方法)” was granted a national invention patent, U.S. invention patent and Taiwan invention patent. For the Type III medical device products, the Group is in the process of preparing work for the clinical trials of various products such as “oral medical collagen sponges (口腔醫用膠原蛋白海綿)”, “traumatic dressing (創面敷料)” and “small beauty needle (小美容針)”, while the “collagen bone filling biomaterials (artificial bone) (膠原蛋白骨填充材料(人工骨))” has been completed its clinical trials in several hospitals, with the trial cases satisfactorily completed. Currently, various work concerning applying for production licences materials are in progress.

Honours of the Group

During the Year, the Group was awarded the following honours in recognition of its outstanding performance.

Awarding Organizations	Honours
Department of Commerce of Guangxi Zhuang Autonomous Region	Guangxi Key Foreign Trade Brand Enterprises
Ministry of Industry and Information Technology of the People’s Republic of China	National Green Factory
Department of Science and Technology of Guangxi Zhuang Autonomous Region	Guangxi Technology Innovation Center in the Professional Technology Sector
Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region	First batch of chain-leading enterprises in Guangxi
Wuzhou Science and Technology Leadership Group Office	Top 10 Enterprises in Wuzhou in terms of R&D Expenditure
Guangxi Zhuang Autonomous Region Federation of Industry and Commerce	2023 Guangxi Top 100 Private Enterprises in Manufacturing
China Meat Association	Advanced Enterprise of China Meat Product Industry

Patents

As of 31 December 2023, the Group had the following patents:

	Total number of patents granted	Within the validity period	Pending approval
China National Intellectual Property Administration	105	71	8
Intellectual Property Office, Ministry of Economic Affairs, Taiwan	2	2	–
United States Patent and Trademark Office	1	1	–
Intellectual Property Office of Singapore	2	2	–
Department of Intellectual Property, Ministry of Commerce, Cambodia	1	1	–
Intellectual Property Office of Indonesia	1	1	–
	<hr/>	<hr/>	<hr/>
Total	<u>112</u>	<u>78</u>	<u>8</u>

Quality Control

The Group strictly controls every production link to ensure its products are of the highest quality and comply with all applicable food 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 Licence 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 Food and Drug Administration in the United States for exporting of sausage casing products to Southeast Asia, Europe and the United States. In addition, the production of all the Group's sausage casing products have strictly complied with the national standards (GB14967-2015) and sausage casing manufacturing industry standards (SB/T10373-2012) of the PRC. 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, and continues to independently undertake third-party inspection assignments, provide various food and relevant product testing services and issue officially recognised testing reports, contribute external sales revenue. Such qualifications recognition is going to lay a solid foundation for the Group to develop into a collagen raw materials base, thereby facilitating the healthy development of high-end foods, healthcare products and medicines in the grand 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 stable customer base. The Group has established its closely-knit yet extensive network of leading meat products processing and sausage manufacturers, not only for cooperation with enterprises in the PRC, but also with those in various overseas markets, such as Southeast Asia, South America 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. On the basis of stabilising existing customers, the Group continued to solicit new customers and achieved favourable outcome.

Supply of Raw Materials

Cattle inner skin is a major raw material for collagen sausage casing production. The supply of cattle inner skin remained stable over the past few years. However, due to the factors such as the economic downturn, the supply of cattle inner skin was slightly tightening in both 2022 and the Year, and the prices of which, as well as the prices of other raw materials and auxiliary materials, remained high, adding cost pressure to the Group.

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” of the PRC 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 October 2027.

FINANCIAL ANALYSIS

Revenue

Revenue increased by approximately 7.6% to approximately RMB1,110.4 million for the Year from approximately RMB1,032.2 million for the year ended 31 December 2022 (the “Prior Year”). The increase was mainly due to vibrant economic activities, the occasions for people going out to consume and dine have increased significantly and the gradual introduction of high-end sausages into household consumption as a result of the mitigating COVID-19 epidemic, hence resulting in the increase in demand for our products. However, with the gradual completion of the new products research and development, the Group’s technology became more mature, which enabled it to expand the proportion of medium and large-sized diameters products and gain access to the market for high-end products, thus progressively meeting the needs of the sausages industry in adjusting its product structure. In addition, the Group continued to proactively expand its export business of sausage casings, with export sales of sausage casings increased by 16.9%, and the total domestic and overseas sales volume of sausage casings increased by approximately 9.0% for the Year.

Cost of sales

Cost of sales increased by approximately 7.8% to approximately RMB939.6 million for the Year from approximately RMB871.7 million for the Prior Year, including the net of write-off and reversal of provision of inventory of approximately RMB2.0 million, as compared to RMB18.8 million for the Prior Year. Excluding such items, the cost of sales for the Year increased by approximately 9.9% as compared to the Prior Year. The costs of raw materials for the Year increased by approximately 8.1% to approximately RMB469.6 million as compared with that of the Prior Year. In addition, the charges for energy increased by approximately 12.2% to approximately RMB182.4 million. The direct labor costs increased by approximately 10.8% to approximately RMB155.0 million.

Gross profit

Gross profit increased by approximately 6.5% to approximately RMB170.9 million for the Year from approximately RMB160.5 million for the Prior Year. Gross profit margin slightly decreased to approximately 15.4% for the Year from approximately 15.5% for the Prior Year. However, gross profit margin for the first half of the Year was only 9.0%, as compared to 20.8% in the second half of the Year, representing a significant improvement.

The continuous increase in prices of raw materials, auxiliary materials and energy during 2022 resulted in the average cost of inventories of finished sausage casing products at the beginning of 2023 being approximately 10.6% higher than that at the beginning of 2022. In addition, in the first half of the Year, the large-scale product trial production and equipment transformations were conducted by the Group due to new products research and development, as well as expansion of production capacity. During the Year, the Group has invested RMB110.7 million in capital expenditures, mainly for expansion of production capacity and equipment transformations with a view to not only expanding the production capacity, but also eliminating the old production lines with high energy consumption, low productivity or high maintenance cost. The production lines were required to undergo trial production to test their quality and effectiveness, and the raw materials, auxiliary materials and energy consumed for the trial production were higher than those under normal production, which in turn increased the average unit cost of production. These less favourable factors resulted in a decline in the Group's gross profit margin for the first half of the Year as compared to that of the first half of the Prior Year. During the Year, gross profit would have increased by approximately RMB52.7 million without the related trial production expenses.

However, with the gradual completion of the new products research and development and expansion of production capacity in the second half of the Year, the Group's technology became more mature, which enabled it to expand the proportion of medium and large-sized diameters products and gain access to the market for high-end products, thus progressively meeting the needs of the sausages industry in adjusting its product structure. In addition, while expanding the production capacity of sausage casings, the Company implemented the standardisation of equipment reengineering, which laid a better foundation for enhancing production efficiency and reducing production costs and equipment maintenance costs. The gross profit margin for the second half of the Year made significant progress over the first half of the Year.

Other income and gains

Other income and gains increased by approximately 67.1% to approximately RMB104.1 million for the Year from approximately RMB62.3 million for the Prior Year. Wuzhou Sanjian Pharmaceutical Co., Ltd. (廣西梧州三箭製藥有限公司) ("Wuzhou Sanjian"), a wholly-owned subsidiary of the Group, entered into an assignment agreement and contract (the "Assignment Agreement and Contract") with Guangxi Weiwei Pharmaceutical Co., Ltd. (廣西維威製藥有限公司) ("Guangxi Weiwei") on 26 October 2022, pursuant to which Wuzhou Sanjian agreed to assign the pharmaceutical products marketing authorisation in respect of fifty pharmaceutical products to Guangxi Weiwei for an aggregate consideration of approximately RMB42.1 million (5% VAT included). The assignment was completed during the Year and resulted in a gain of approximately RMB39.7 million. Please refer to the announcement of the Group dated 26 October 2022 for details.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 3.6% to approximately RMB35.0 million for the Year from approximately RMB33.8 million for the Prior Year. Selling and distribution expenses as a percentage of revenue decreased to approximately 3.1% for the Year from approximately 3.3% for the Prior Year.

Administrative expenses

Administrative expenses decreased by approximately 0.7% to approximately RMB152.0 million for the Year from approximately RMB153.1 million for the Prior Year.

The Group recorded an exchange loss of approximately RMB16.9 million in total for the Prior Year due to the depreciation of Renminbi against the U.S. dollars and Hong Kong dollars, as compared to an exchange loss of approximately RMB4.6 million in total for the Year. In addition, the Group's investment in an associate experienced an impairment of approximately RMB12.1 million for the Year due to unfavorable economic and market conditions, as compared to approximately RMB6.9 million for the Prior Year.

Finance costs

Finance costs decreased by approximately 1.5% to approximately RMB9.1 million for the Year from approximately RMB9.2 million for the Prior Year.

Share of loss of an associate

During the Year, Ferguson Wuhan contributed a share of loss of approximately RMB2.3 million to the Group as compared to a share of loss of approximately RMB0.8 million for the Prior Year.

Impairment of trade and bills receivables

The Group recorded an impairment of trade and bills receivables of approximately RMB8.7 million for the Year, as compared to a reversal of approximately RMB9.8 million for the Prior Year.

Income tax expenses

Income tax expenses were approximately RMB38.4 million for the Year, as compared to approximately RMB14.2 million for the Prior Year. The Company's major operating subsidiary, Guangxi Shenguan Collagen Biological Group Co., Ltd. (廣西神冠膠原生物集團有限公司) ("Shenguan Collagen") enjoys a preferential tax treatment due to its location in western China and fall into the industry category encouraged by government policies. The applicable tax rate for Shenguan Collagen is 15%.

The effective tax rates applied to the Group were approximately 39.8% and approximately 56.5% of profit before tax for the Prior Year and for the Year, respectively. The higher effective tax rates for the Prior Year and for the Year than the applicable tax rates of major operating subsidiary was mainly due to the provision of dividend withholding tax, losses recorded by some subsidiaries of the Group, and the gain of approximately RMB39.7 million arising from the assignment of the pharmaceutical products marketing authorisation in respect of fifty pharmaceutical products to Guangxi Weiwei by Wuzhou Sanjian during the Year, which resulted in an utilization of deferred tax assets arising from tax loss at the applicable tax rate of 25% was approximately RMB9.9 million.

Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Year was approximately RMB1.7 million, which mainly represented the total loss attributable to the non-controlling interests in all non-wholly owned subsidiaries.

Profit attributable to owners of the parent

As stipulated in the aforesaid reasons, profit attributable to owners of the parent increased by approximately 32.6% to approximately RMB31.2 million for the Year from approximately RMB23.6 million for the Prior 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 2023, the cash and cash equivalents together with pledged and time deposits amounted to approximately RMB1,024.0 million, representing a decrease of approximately RMB339.6 million (as at 31 December 2022: approximately RMB1,363.6 million) as compared to that as at the end of 2022. Among these balances, over 90% was denominated in Renminbi, and the remaining was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 31 December 2023, the total bank borrowings of the Group amounted to approximately RMB272.8 million, decreased by approximately RMB262.4 million (as at 31 December 2022: approximately RMB535.2 million), and all bank borrowings were wholly repayable within one year and denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents together with the pledged and time deposits less total bank borrowings) of approximately RMB751.2 million as at 31 December 2023 (as at 31 December 2022: approximately RMB828.4 million). The debt-to-equity ratio was 11.7% as at 31 December 2023 (as at 31 December 2022: 21.5%). The debt-to-equity ratio was calculated by dividing total bank borrowings and lease liabilities by total equity.

Cash flows

During the Year, the net cash inflow of approximately RMB176.4 million were generated from operating activities, the net cash inflow of approximately RMB298.1 million were generated from investing activities and the net cash outflow of approximately RMB455.2 million were generated from financing activities, respectively. The net cash inflow from investing activities was mainly attributable to the cash inflow from decrease in pledged deposits and non-pledged time deposits with original maturity of over three months when acquired, partly offset by the cash outflow from the acquisition 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 new bank borrowings, and the payment of 2022 final dividends.

Derivative financial instruments

During the Prior Year, in order to control the exchange rate risk, the Group entered into a forward foreign exchange contract with a bank for a bank loan with a principal of US\$28.6 million, and sold RMB and bought U.S. dollars at a fixed forward exchange rate, so as to pay the principal and interest of the U.S. dollar loan at maturity. As at 31 December 2022, the fair value of the contract was an asset of approximately RMB3.1 million and the contract was settled on 17 May 2023. Please refer to the announcement of the Group dated 20 May 2022 for details.

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 (the “Board”) of directors (the “Directors”) 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.

Please refer to the section headed “Derivative financial instruments” above for exchange rate risk controls for individual bank loan by the Group.

Capital expenditure

The capital expenditure of the Group during the Year amounted to approximately RMB110.7 million, which was mainly used for expansion of production capacity and equipment transformations, and the capital commitments as at 31 December 2023 amounted to approximately RMB127.7 million, which were mainly related to the expansion, improvement and upgrades of production facilities.

Pledge of assets

As at 31 December 2023, pledged bank deposits amounted to approximately RMB66.0 million in total.

Contingent liabilities

As at 31 December 2023, 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.

On 26 October 2022, Wuzhou Sanjian, a wholly-owned subsidiary of the Group, entered into the Assignment Agreement and Contract with Guangxi Weiwei, pursuant to which Wuzhou Sanjian agreed to (i) assign the pharmaceutical products marketing authorisation in respect of fifty pharmaceutical products to Guangxi Weiwei for an aggregate consideration of approximately RMB42.11 million (5% VAT included); and (ii) sell the raw materials to Guangxi Weiwei for an aggregate consideration of approximately RMB7.54 million (VAT excluded). The transfer was completed during the Year. Please refer to the announcement of the Group dated 26 October 2022 for details.

Subsequent Events after the Year

There were no important events affecting the Group that have occurred since 31 December 2023.

Human Resources

As at 31 December 2023, the Group hired a total of approximately 2,790 contract employees (as at 31 December 2022: 2,710). During the Year, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB219.5 million (Prior Year: approximately RMB185.6 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

2024 marks the 45th anniversary of the research and development and application of the Group's products, the 35th anniversary of the establishment of the plant, the 20th anniversary of its restructuring, and the 15th anniversary of its listing in Hong Kong, as well as a critical year for the implementation of the "Fourteenth Five-Year Plan". The Central Economic Work Conference has outlined nine major missions for the 2024 economic work, which include promoting technological innovation to support the development of a modern industrial system, focusing on expanding domestic demand and making down-to-earth efforts to secure and improve people's livelihoods. The Central Economic Work Conference also emphasized that in 2024, it is necessary to adhere to the general principle of seeking progress while upholding and maintaining stability, promoting stability through progress, and establishing new before abolishing the old. It will be essential to implement policies that are conducive to stabilizing expectations, growth, and employment. The promulgation and implementation of these policies will be more favourable to the diversified development of the Group's products.

The Group will stress the theme of “seeking progress while upholding and maintaining stability and promoting stability through progress” and make every effort to propel the Group’s production and operation to a new stage. In recent years, the Group has been adhering to the implementation of a development strategy of product diversification based on collagen sausage casings and oriented towards “Three Developments and One Core” of collagen food products, collagen skincare products and collagen medical devices. Although the Group has encountered considerable difficulties in the process of transformation, it has laid a certain foundation after several years of endeavours.

With a large market size and a broad consumer base in sausage, the first quarter of 2024 saw a flurry of new sausage products introduced by a number of well-known meat producers to capture the ever-growing market, and a variety of products were introduced in the market. The emergence of new brands of sausages has also led to a rapid expansion of their production scale. In addition, one of the sausages available in the market was listed in the 2024 Consumer Sector Impact Product of Forbes China as a pre-prepared dish, which demonstrates that sausage products will continue to have great potential for growth in the future. The Group will emphasize the following five priorities for its sausage casings industry: (1) strengthening internal management and continuing to place top priority on the stability of product quality; (2) increasing the proportion of medium and large-sized diameters sausage casings, high-end sausage casings and exported products; (3) embarking on the establishment of 50 additional production lines to expand its production capacity to meet the demand for the medium and large-sized diameters products; (4) accelerating the technical transformation of production automation and intelligence to enhance production efficiency; (5) implementing management innovation and promoting comprehensive information management to enhance work efficiency.

For collagen food products, the Group is committed to promoting the innovative application of collagen in the food field with the mission of promoting human dietary health, leading the new future of collagen dietary applications, and providing consumers with cost-effective collagen health food. The Group will continue to expand the marketing and promotion of various products such as rice noodles, collagen oatmeal, collagen oat drinks, collagen oat porridge and beef tendon, and will also adjust the marketing strategy and expand the marketing team, and strive to achieve better performance through methods including in-store experience and live streaming.

For collagen skincare products, the Group will conduct in-depth research on the application of collagen in the field of skin care and cosmetics, continue to research and develop new products such as daily skin care products and cleaning products to expand the “Luxianna”, “COLL-FULL” and “Collagen Family” product chain, and promote the sales of multiple products. At the same time, the Group will also put more efforts into advertising and sales planning, and fully promote online (e-commerce, micro commerce) and offline sales.

For collagen medical devices, the Group will serve mankind with cutting-edge collagen biotechnology, carry out more extensive and in-depth research on medical collagen application technology, and speed up the clinical trials of new products and the application for production licences. The Group will continue to promote the production approval of the Type III medical device of the “collagen bone filling biomaterials (artificial bone) (膠原蛋白骨填充材料(人工骨))”, and expedite the completion of the various pre-clinical trial work of products such as “oral medical collagen sponges (口腔醫用膠原蛋白海綿)”, “traumatic dressing (創面敷料)” and “small beauty needle (小美容針)”, with a view to entering into clinical trials in 2024.

Finally, the team of the Company will continue to endeavour and speed up the growth of the grand health industry of Shenguan, further broaden the application of collagen technology, and develop more products in the collagen industry chain for the market, so as to generate better returns on investment for the shareholders.

OTHER INFORMATION

Dividends

The Directors recommended the payment of a final dividend of HK2.0 cents per ordinary share and a special final dividend of HK2.0 cents per ordinary share for the Year to shareholders whose names appear on the register of members of the Company on 13 June 2024 (Thursday). 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 5 July 2024 (Friday).

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 3 June 2024 (Monday), the register of members of the Company will be closed from 29 May 2024 (Wednesday) to 3 June 2024 (Monday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 28 May 2024 (Tuesday). 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 7 June 2024 (Friday) to 13 June 2024 (Thursday), both days inclusive. The record date will be 13 June 2024 (Thursday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 6 June 2024 (Thursday). 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 C3 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 C3 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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

The Company's corporate governance practices for the Year are based on the code provisions set out in the Corporate Governance Code (the "Code") contained in Part 2 of Appendix C1 to the Listing Rules.

Save as disclosed below, the Board considered that the Company had complied with all the code provisions set out in the Code during the Year.

Under code provision C.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 C.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 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 and consequently no opinion or assurance conclusion has been expressed by Ernst & Young on this preliminary announcement.

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

Hong Kong, 26 March 2024

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi, Mr. Sha Junqi and Mr. Li Chenglin; 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. Zhou Xiaoxiong.