神冠
SHENGUAN

Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code: 00829

Annual Report 2018

CONTENTS

CORPORATE INFORMATION

Executive Directors

Ms. Zhou Yaxian *(Chairman and President)*
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

Non-executive Director

Dato' Sri Low Jee Keong

Independent Non-executive Directors

Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

Company Secretary

Mr. Ng Yuk Yeung *FCCA CPA CFA*

Legal Advisor as to Hong Kong Laws

Loong & Yeung
Room 1603, 16/F
China Building
29 Queen's Road Central
Hong Kong

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Headquarter

Unit 2902, Sino Plaza
255–257 Gloucester Road
Causeway Bay
Hong Kong

Mainland Office

29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

Principal Bankers

Agricultural Bank of China
Citibank (Hong Kong)
Bank of China
Bank of Communications
China Construction Bank
The Hongkong and Shanghai Banking Corporation

Auditor

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Listing Information

Listing: The Stock Exchange of Hong Kong Limited
Stock code: 00829
Ticker symbol
Reuters: 0829.HK
Bloomberg: 829: HK Equity

Key Dates

13 October 2009
Listing on the Hong Kong Stock Exchange

18 March 2019
Announcement of 2018 Annual Results

17 May 2019 to 22 May 2019 (both days inclusive)
Closure of Register of Members
(for determining the eligibility to attend the Annual General Meeting)

22 May 2019
Annual General Meeting

28 May 2019 to 31 May 2019 (both days inclusive)
Closure of Register of Members
(for determining the eligibility to receive the final dividend)

On or around 19 June 2019
Final Dividend Payment Date

Registrar & Transfer Offices

Principal:
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch:
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Share Information

Board lot size: 2,000 shares

Shares in issue as at 31 December 2018
3,234,578,000 shares

Market capitalization as at 31 December 2018
HK$1,455,560,000

Basic earnings per share for 2018
Full year RMB2.5 cents

Total dividend per share for 2018
Full year HK3.6 cents

Enquiries Contact

Wonderful Sky Financial Group Holdings Limited

Email: *shenguan@wsfg.hk*

Website

www.shenguan.com.cn

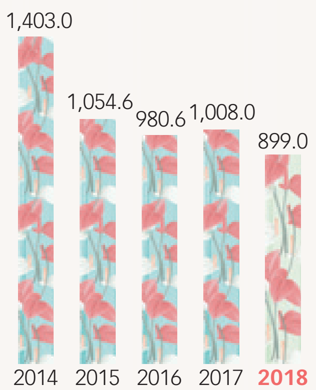
Financial and Operating Summary for the Year ended 31 December

(RMB million, except where otherwise stated)	2018	2017	Change
Revenue	899.0	1,008.0	-10.8%
Profit attributable to owners of the Company	80.3	68.8	+16.7%
Basic earnings per share (RMB cents)	2.5	2.1	+19.0%
Dividend per share (HK cents)			
– Final	2.0	2.0	–
– Special (Final)	1.6	1.6	–
Net cash flows from operating activities	282.1	422.4	-33.2%
Total assets	3,117.7	3,294.0	-5.4%
Inventory turnover day – Raw materials (days)*	29.2	24.9	+4.3 days
Inventory turnover day – Finished goods & Work in progress (days)*	338.4	300.8	+37.6 days
Trade receivables turnover day (days)*	107.7	92.2	+15.5 days
Trade payables turnover day (days)*	112.8	153.7	-40.9 days

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

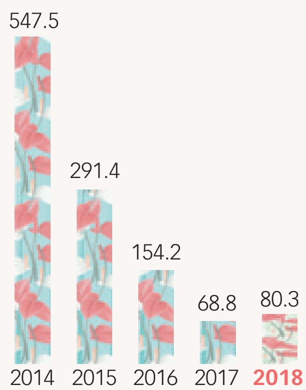
Turnover

RMB million



Profit attributable to Owners of the Company

RMB million



On the whole, 2018 marked an important year of new product development and market expansion for the Group. The Group was committed to expanding collagen technology applications to various fields so as to achieve product diversification and extend its reach to the great health industry and the strategic emerging industries, thereby expanding the Group's areas of collagen applications and enhancing its capability of innovative product research and development.

Ms. Zhou Yaxian
Chairman of the Board and President of the Company

To all shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited ("Shenguan Holdings" or the "Company"), I hereby present the audited annual results for the year ended 31 December 2018 (the "Year") of the Company and its subsidiaries (collectively referred to as the "Group").

2018 was a challenging year for the Group. Despite the influence of the economic environment shaped by sluggish global economic recovery, higher inflation in general, Sino-US trade war, tightening monetary policies, relatively large downward pressure faced by the domestic economy and other conditions, the Group centered on "new product development, market expansion and quality-oriented growth" as its work priorities while gathered pace for the build-up of an industrial chain featuring collagen technology as its core. As a result of such efforts, the stability of the Group's production and operation was maintained and the economic benefits were improved as compared with 2017, which marked a new achievement in product diversification.

During the Year, the Group continued to maintain its leading position in the domestic collagen sausage casing market and achieved considerable progress in various aspects including product research and development, technological innovation and talent acquisition. The Group continued to upgrade product mix, consolidated customer base and further tapped into new markets by enhancing product development, market establishment and corporate management. At the same time, the Group actively promoted staff performance assessment and incentive mechanism to enhance staff motivation, resulted in improved operation quality and expanded market capability of the Group. However, due to oversupply of collagen sausage casings resulted from stagnant growth in the domestic meat product industry as well as continued fierce market competition, together with the impact of African swine fever, the sales of collagen sausage casings for the Year dropped to some extent as compared with the prior year.

The Group was committed to facilitate the construction of an industrial chain featuring collagen technology as its core. During the Year, the Group continued to experience new advancement in product diversification. For collagen food products, products such as collagen rice noodles, bovine collagen and collagen solid and liquid drinks developed by the Group were put into trial production, some of which were already sold in the market. For collagen skincare products, certain new products in the series are undergoing trial production, particularly the collagen masks with "instrument" label (械字號) has achieved substantial progress. For healthcare products, Ferguson (Wuhan) Biotech Company Limited carried out research and development of 21 new products including new nutrient softgel capsules for pregnant care, methylfolate tablets, new Ferguson nutrient softgel capsules for junior and iron supplements for pregnant care. For collagen medical materials, "highly reactive collagen-based bone repairing biomaterials (高活性膠原基骨修復生物材料)" was tested for its product technical indicators. In addition, new products such as "sterile low endotoxin medical collagen (低內毒素無菌醫療級膠原蛋白)" and "hydrophilic band-aids (親水性創口貼)" were under research and development.

During the Year, the Group gained recognition for its outstanding performance, including "Guangxi Top 50 Private Manufacturers" awarded by Guangxi Zhuang Autonomous Region Federation Of Industry And Commerce, "Material Taxation Contribution Award" and "Technologically Innovative Enterprise Improvement Award" awarded by the Management Committee of Wuzhou High-Tech Industrial Development Zone and the title of "Advanced Enterprise of China Meat Product Industry 2018 – Most Valuable Brand" granted by the China Meat Association. In addition, the Group continued to maintain various titles such as High and New Tech Enterprise, Guangxi Model Technologically Innovative Enterprise (廣西技術創新示範企業), National Post-doctoral Science Research Workstation (全國博士後科研工作站) and Cluster of Talents in Guangxi (廣西人才小高地).

On the whole, 2018 marked an important year of new product development and market expansion for the Group. The Group was committed to expanding collagen technology applications to various fields covering food products, healthcare products, cosmetics, medicine and medical materials with collagen technology as its core and collagen sausage casing industry as its base, so as to achieve product diversification and extend its reach to the great health industry and the strategic emerging industries, thereby expanding the Group's areas of collagen applications and enhancing its capability of innovative product research and development. Meanwhile, in order to strengthen the construction of the corporate research and development platform, the Group recruited a number of high caliber talents to enhance the Group's technological development and market expansion capabilities.

Looking ahead, 2019 is going to be a crucial year for the Group regarding the implementation of the "Thirteenth Five-Year Plan". With a solid foundation laid over the past three years, the Group's plan for product diversification is increasingly mature in terms of product research and development, production technologies and market expansion. Coupled with national industrial policies and local development plans, it is the right time for the Group to fully engaged in product diversification.

The Group will ride on the opportunities by centering on "principal business consolidation and new product launch" as its work priorities and endeavoring to stabilize and enhance product quality as well as to solidify its foothold in the collagen sausage casing market. Based on the principal business of collagen sausage casings, the Group will comprehensively promote the production and operation of collagen food products, skincare products and medicinal products, speed up the implementation of product diversification strategies and the transformation of the industry, proactively develop new products while improving the quality of its existing products. The Group will continue to maintain its important position in the domestic collagen sausage casing market, actively explore new markets and achieve better performance with product diversification.

The Group believes that the aforesaid initiatives will continue to promote sustainable development of the Group, boost the growth of the collagen sausage casing business and further broaden the application of collagen technology, so as to generate fabulous returns to the shareholders in the long run.

Ms. Zhou Yaxian
Chairman and President

Hong Kong, 18 March 2019

Market Review

In the Year, under the influence of external factors, the global economy experienced heightened volatility, which presented uncertainties to the market. During the Year, the Chinese economy surmounted challenges and difficulties and maintained a steady growth momentum. With the advancement of supply-side structural reforms, economic structure was optimized and upgraded, while the Chinese economy sustained a moderate yet steady upward momentum in general. Consumer Price Index (CPI) rose by 2.1% in 2018, hitting a new record high in the recent four years. In addition, China's average CPI remained at a high level, becoming the chief driver of economic growth.

According to the National Bureau of Statistics of the People's Republic of China (the "PRC"), during the Year, the gross domestic product grew by 6.6% year-on-year; the total retail sales of consumer goods grew by 9% year-on-year; the output of pork, beef, mutton and poultry was 85.17 million tons, down by 0.3% year-on-year, among which pork output was 54.04 million tons, representing a decrease of 0.9% year-on-year. Due to oversupply of collagen sausage casings resulted from stagnant growth in the domestic meat product industry in recent years as well as continued fierce market competition, together with the impact of African swine fever, the sales of the Group's collagen sausage casings during the Period dropped to some extent as compared with the same period last year.

Despite a reduction in sales of collagen sausage casings during the Year, with a solid foundation laid over the past three years, the Group's development of product diversification was increasingly mature in terms of product research and development, production technologies and market expansion. Based on the principal business of collagen sausage casings, the Group comprehensively promoted the production and operation of collagen food products, skincare products and medicinal products, extended its reach to the great health industry and the strategic emerging industries and expanded the areas of collagen applications.

Business Review

Thanks to the joint efforts of its employees, the Group continued to secure its important position in the domestic collagen sausage casing market, with the stability of production and operation being maintained and the economic benefits improved as compared with prior year. The Group launched price-off promotions of certain aged sausage casing products during the last two financial years, while the Group's sales were primarily sales of products that are fast-moving inventories and price-off promotions were significantly reduced during the Year. Therefore, although sales dropped as compared with that during 2017 (the "Prior Year"), the average selling price increased. Besides, the Group had taken various measures to control production costs per unit and used its bargaining power of bulk purchases to lower the cost of raw materials over the past years, the effectiveness of which gradually reflected in the cost of inventories determined on the weighted average basis. Both of the above had a positive effect on the Group's gross profit and gross profit margin.

In response to the complicated and ever-changing market environment at present, the Group centered on "new product development, market expansion and quality-oriented growth" as its work approach during the Year. To start with, the Group continued to upgrade product mix, improved product quality and further tapped into new markets by enhancing product development, market establishment and corporate management. At the same time, the Group took initiatives in launching the intelligent transformation of machinery automation, with stringent regulations on production and technical operation processes. Besides, the Group also actively promoted staff performance assessment and incentive mechanism to enhance staff motivation, resulted in improved operation quality and expanded market capability of the Group. As a result of the above efforts, the Group demonstrated remarkable improvement in economic benefits during the Year.

Industrial Layout and Technological Research & Development

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

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan"), a wholly-owned subsidiary of the Company, maintained the research and development platforms titles as the national-grade "Post-doctoral Science Research Workstation (博士後科研工作站)", "Cluster of Collagen Technology Talents in Guangxi (廣西膠原蛋白技術人才小高地)", "Guangxi Collagen Engineering Technology Research Center (廣西膠原蛋白工程技術研究中心)", "Guangxi Enterprise Technology Center (廣西企業技術中心)" and "Guangxi Enterprise Research and Development Center (廣西企業研發中心)", and received the title of "Guangxi Collagen Extraction Technology Research Center (廣西膠原蛋白提取技術工程研究中心)" for the first time as approved by Guangxi Development and Reform Commission. As at 31 December 2018, the Group employed a total of ten high caliber talents, including five doctoral and post-doctoral research fellows, one professor level senior engineer and four graduates of master's degrees.

During the Year, the Group achieved outstanding results in new product research and development. For collagen food products, collagen rice noodles, bovine collagen and collagen solid and liquid drinks developed by the Group were put into trial production, some of which were already sold in the market. For collagen skincare products, the Group sped up the development of collagen skincare product series based on the market development trend. In particular, new products such as collagen serum product series, collagen mask essences, collagen extracts and collagen masks with "instrument" label achieved substantial progress in research and development, while certain new products are undergoing trial production.

For collagen medical materials, our new product, highly reactive collagen-based bone repairing biomaterials (高活性膠原基骨修復生物材料), is being tested for its product technical indicators. In addition, new products such as sterile low endotoxin medical collagen (低內毒素無菌醫療級膠原蛋白) and hydrophilic band-aids (親水性創口貼) are under research and development. Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") has been certified by Guangdong provincial authorities for the corporate standards on Fibrous Type I Collagen (Q/SCSW 2-2017), Medical Soluble Type I Collagen (Q/SCSW 3-2017) and Collagen Wound Dressing (Q/SCSW 4-2017). In addition, Guangdong Victory is also lodging a number of applications for patents, of which the patents for "Artificial Bone Structure" were granted by the National Intellectual Property Administration of the PRC and the Taiwan Intellectual Property Office and "Preparation Method of Low Endotoxin Collagen" was accepted by the National Intellectual Property Administration of the PRC, the Taiwan Intellectual Property Office and the United States Patent and Trademark Office.

Ferguson (Wuhan) Biotech Company Limited ("Ferguson Wuhan") is putting efforts in the research and development of three types of products, namely health food, general food and special food for medical purposes, including glucosamine chondroitin, lutein softgel capsules, glucosamine tablets, methylfolate tablets, calcium and zinc oral liquid, nutrition packs, sports drinks, whey protein powder, balanced nutrition powder, etc. Ferguson Wuhan has made initial achievement in market channel building.

As at 31 December 2018, the Group had the following patents:

	Granted and still effective	**Accepted and pending for approval**
National Intellectual Property Administration of the PRC	69	8
Taiwan Intellectual Property Office	1	1
United States Patent and Trademark Office	–	1

Collagen Sausage Casings

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

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

With respect to the supply of raw materials, cattle's inner skin is a major raw material for collagen sausage casing production. The supply of cattle's inner skin remained stable over the past few years and such situation is expected to remain unchanged in the coming years. Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan"), one of the Group's major cattle inner skin providers, applied for the Food Production Licence under the Measures for the Administration of Food Production Licensing and Food Safety Law of the PRC on a voluntary basis and was granted with such licence, effective until November 2022, by Wuzhou Bureau for Administrative Examination and Approval, the local issuing authority of the China Food and Drug Administration where Guangxi Zhiguan is located. During the Year, in response to the market situation, the Group used its bargaining power of bulk purchases to successfully reduce the purchase price of raw materials and effectively controlled the production cost, enhancing the competitiveness of the Group's products in the future.

Quality Control

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

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

Customer Relationship

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

Financial Analysis

Revenue

Revenue decreased by approximately 10.8% to approximately RMB899.0 million for the Year from approximately RMB1,008.0 million for the Prior Year. Although the sales of collagen sausage casing decreased, the proportion of sales of aged inventories at a lower price during the Year had declined as compared to the Prior Year, leading to a slight increase in average selling price.

Cost of sales

Cost of sales decreased by approximately 23.6% to approximately RMB586.5 million for the Year from approximately RMB767.3 million for the Prior Year, including the provision and write-off of inventory of approximately RMB15.1 million, as compared to approximately RMB12.6 million for the Prior Year. Excluding such items, the cost of sales for the Year decreased by approximately 24.3% as compared to the Prior Year. One of the reasons for the decline in cost of sales goes to the drop in sales. In addition to this, the Group has taken various measures to control the unit costs of production as well as utilizing its bargaining power of bulk purchases to reduce the costs of raw materials over the past years, and the effectiveness of which has gradually emerged in terms of the cost of inventories determined on the weighted average basis. The costs of raw materials decreased by approximately 23.9% to approximately RMB203.6 million. In addition, the charges for energy decreased by approximately 25.0% to approximately RMB135.7 million for the Year as the Group continued to control energy consumption. The direct labor cost decreased by approximately 32.3% to approximately RMB106.2 million for the Year.

Gross profit

Gross profit increased by approximately 29.9% to approximately RMB312.5 million for the Year from approximately RMB240.7 million for the Prior Year. The gross profit margin increased from approximately 23.9% for the Prior Year to approximately 34.8% for the Year. The increase in gross profit margin is mainly due to the slight increase in average selling price as well as the decrease in cost of sales.

Other income and gains

Other income and gains increased by approximately 5.4% to approximately RMB36.8 million for the Year from approximately RMB34.9 million for the Prior Year. There was a gain on change in fair value of a financial asset at fair value through profit or loss of approximately RMB1.6 million recorded during the Prior Year, which was absent for the Year. Besides, the Group recorded a foreign exchange gain, net of approximately RMB3.7 million for the Year.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 9.0% to approximately RMB39.7 million for the Year from approximately RMB43.6 million for the Prior Year. Selling and distribution expenses as a percentage of revenue increased to approximately 4.4% for the Year from approximately 4.3% for the Prior Year.

Administrative expenses

Administrative expenses increased by approximately 28.2% to approximately RMB202.6 million for the Year from approximately RMB158.1 million for the Prior Year. During the Year, the Group sold or disposed some of the equipment in relatively obsolete condition and loss on disposal of approximately RMB11.3 million was recorded for equipment accordingly, as compared to a loss of approximately RMB265,000 for the Prior Year.

For the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets are amortized over five years. The related amortization expense was approximately RMB50.8 million for the Year. After deducting minority interests and deferred tax of Guangdong Victory, the effect of the related amortization expense on the net profit of the Group was approximately RMB30.4 million. The effect of such amortization expense on the net profit of the Group was approximately RMB26.8 million for the Prior Year. The factor above which had a relatively material impact on the net profit for the Year were non-cash items and the cash flow of the Group was not affected.

During the Year, the Group was required to make impairment of approximately RMB22.8 million on the goodwill arising from the acquisition of 80% interest in Guangdong Victory. The impairment on goodwill was recorded mainly because the development of the sales network of medical collagen raw materials was slower than expected and the Group had not received production permits for new products of which clinical trials had been completed, which resulted in a downward adjustment to and delay in achieving the profit as set out in Guangdong Victory's financial forecast.

In addition, during the Year, the Group also made impairment of approximately RMB13.6 million on the 25% interest in Ferguson Wuhan. For details of Ferguson Wuhan's operating conditions, please refer to "Share of loss of an associate".

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

Finance costs

Finance costs decreased by approximately 59.4% to approximately RMB3.5 million for the Year from approximately RMB8.7 million for the Prior Year. For information about the bank borrowings of the Group, please refer to the section headed "Cash and bank borrowings".

Share of loss of an associate

The share of loss of an associate for the Year amounted to approximately RMB7.4 million, which was mainly due to the share of loss of Ferguson Wuhan during the Year. During the Year, the sales revenue and gross profit of Ferguson Wuhan fell under the impact of the decline in the overall market price of professional healthcare products. In addition, selling and distribution expenses increased due to the commitment to expand the retail market, resulting in a loss in Ferguson Wuhan.

Income tax expenses

Income tax expenses were approximately RMB24.9 million for the Year, as compared to approximately RMB9.0 million for the Prior Year. The Company's major operating subsidiaries, Wuzhou Shenguan and Wuzhou Shensheng Collagen Products Co., Ltd. ("Shensheng Collagen") enjoyed a preferential tax treatment because of their location in western China and their engagement in industries encouraged by government policies. The applicable tax rate for Wuzhou Shenguan and Shensheng Collagen was 15%.

The effective tax rates applied to the Group were approximately 13.7% and approximately 25.9% of profit before tax, respectively for the Prior Year and the Year. A higher effective tax rate for the Year as compared to the applicable tax rate of major operating subsidiaries was mainly due to the fact that the amortization of technology, impairment of goodwill and impairment of investment in an associate in the administrative expenses mentioned above were non-deductible items.

Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Year was approximately RMB9.1 million, mainly representing the amortization expense of technology intangible assets attributable to the minority 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 approximately 16.7% to approximately RMB80.3 million for the Year from approximately RMB68.8 million for the Prior Year. The Group's selling and distribution expenses and administrative expenses for the exploration of new products, including facial masks, instant edible solid collagen and collagen rice noodles, for the Year and the Prior Year totaled RMB15.7 million and RMB35.2 million, respectively.

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 2018, the cash and cash equivalents together with pledged deposits and time deposits amounted to approximately RMB719.9 million, representing an increase of approximately RMB48.7 million from the end of 2017. Among these balances, approximately 95.3% was denominated in Renminbi, and the remaining 4.7% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 31 December 2018, the total bank borrowings of the Group amounted to approximately RMB82.7 million, representing a decrease of approximately RMB108.0 million (as at 31 December 2017: approximately RMB190.7 million), and all the bank borrowings were wholly repayable within one year. Of which, the total bank borrowings denominated in Renminbi were approximately RMB40.0 million, while the total bank borrowings denominated in Hong Kong dollars were HK$48.7 million (translated to approximately RMB42.7 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 RMB637.2 million as at 31 December 2018, representing an increase of approximately RMB156.7 million as compared to that at the end of 2017. The debt-to-equity ratio was 2.9% as at 31 December 2018 (as at 31 December 2017: 6.7%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Year, the net cash inflow of approximately RMB282.1 million was generated from operating activities, while investing activities and financing activities utilized approximately RMB209.4 million and RMB218.8 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 purchase of property, plant and equipment, which was partially offset by the cash inflow from decrease in pledged deposits. 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 2017 final dividend.

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 RMB24.8 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 31 December 2018 amounted to approximately RMB112.4 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2019 amounted to approximately RMB80.0 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business, as well as expansion of production facilities of the newly developing business, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of assets

As at 31 December 2018, pledged bank deposits amounted to approximately RMB85.0 million in total.

Contingent liabilities

As at 31 December 2018 and up to the date of this report, 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 or joint ventures during the Year.

Events after the Year

There were no important events affecting the Group that have occurred since 31 December 2018.

Human Resources

As at 31 December 2018, the Group hired a total of approximately 2,550 contract employees (as at 31 December 2017: 2,700). During the Year, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB176.3 million (2017: approximately RMB206.5 million). In order to attract and retain high quality talents to ensure smooth business operation and to cope with the need of the Group's continuing expansion, the Group offers competitive remuneration packages with reference to the market conditions as well as individual qualifications and experience.

Prospects And Strategies

Looking ahead to 2019, the global market will still be uncertain due to many different factors. With profound changes in the external environment, the Chinese economy will face downward pressure, yet the development in the PRC will still be in a significant period of strategic opportunities. To cope with the slowdown in economic growth and move toward a high-quality development path, the Chinese government will adopt a "positive" fiscal policy with a "prudent" monetary policy. In the 2019 Central Economic Work Conference, it was suggested that in 2019, the PRC will uphold the underlying principle of pursuing progress while ensuring stability, adhere to the new development philosophy, promote high-quality development, take supply-side structural reform as the main task, deepen market reform, expand opening up at a high level, as well as further stabilizing employment, the financial market, foreign trade, foreign investment, domestic investment and expectations. In the meantime, the PRC will continue to focus on supporting the development of private enterprises, creating a legalized institutional environment, implementing a proactive fiscal policy and a stable monetary policy, introducing the employment first policy, promoting tax cuts in a larger scale and significantly reducing fees, as well as effectively alleviating the problem of financing difficulties and high financing costs for enterprises. However, given changes amidst stability in the current economic operation, together with structural adjustment of the meat product industry and increasingly fierce market competition, the Group's production and operation will be ridden with both opportunities and challenges. 2019 is going to be a crucial year for the Group regarding the implementation of the "Thirteenth Five-Year Plan". The Group will accelerate the implementation of product diversification strategies and put efforts in the research and development of new collagen-based food products, healthcare products, cosmetics, medicine and medical materials. The Group will utilize automation and intellectualization as a means to achieve product diversification and extend its reach to the great health industry and the strategic emerging industries, so as to build itself into a world-class base for collagen research and development and application as well as a major supplier of collagen raw materials.

In the face of external challenges such as the intensifying competition in the collagen sausage casing industry, structural adjustment of the meat product industry as well as transformation and upgrade of most enterprises, the Group will place "principal business consolidation and new product launch" as its work priorities for 2019 by endeavoring to stabilize and enhance product quality to solidify its leading position in the collagen sausage casing market; accelerating the reconstruction of mechanical equipment via automation and intellectualization to enhance production efficiency; stepping up its efforts in new product research and development as well as marketing and sales to speed up industrial transformation; further deepening the assessment and incentive mechanism to fully enhance staff motivation; and strengthening the management of its subsidiaries to create greater economic benefits and increase the overall competitiveness of the Group.

For collagen food products, in order to realize more significant growth in sales revenue, the Group will put more effort in production, advertising and sales planning of collagen rice noodles by fully engaged in marketing activities in respect of e-commerce, micro commerce and agent sales. Meanwhile, we will accelerate the research and development of solid collagen and liquid collagen drinks, improve process technologies, equipment and ancillary facilities, and market new products as soon as possible. For collagen skincare products, the Group will actively promote the construction of the collagen skincare product industry, complete the construction and production of the Singapore base, and spare no effort in advertising and sales planning.

The Group will continue to be active in developing its collagen medical material business. We will strive for the clinical trial approval of highly reactive collagen-based bone repairing biomaterials (高活性膠原基骨修復生物材料) during 2019. The Group will relocate Guangdong Victory as soon as possible and endeavor to enhance the sales of medical collagen raw materials and semi-finished materials. Wuzhou Victory Biotech Co., Ltd., a subsidiary of the Group, will also speed up the purchase of equipment. It is expected to receive the GMP Production Permit in the first half of 2019 and will commence the production of products including water-soluble collagen and hydrophilic band-aids (親水性傷口貼).

The Group believes that the aforesaid initiatives will contribute to overall operational soundness and continuous growth in economic benefits, facilitation of the great health industry upgrade and further implementation of emerging industry strategies, so as to secure its leading position in the industry and generate fabulous returns to the shareholders of the Group in the long run.

Corporate Governance Practices

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the trust of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance codes to meet the legal and commercial standards by focusing on areas such as internal control, adequate disclosure and accountability to all shareholders.

The Company's corporate governance practices are based on the code provisions as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Save as disclosed in the section headed "Chairman and Chief Executive" in this Corporate Governance Report, the Board considered that 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.

Details of the Company's corporate governance are summarized below.

Board of Directors

Composition

As at the date of this report, the Board comprised eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors:

Executive Directors:

Ms. Zhou Yaxian *(Chairman and President)*
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

Non-Executive Director:

Dato' Sri Low Jee Keong

Independent Non-Executive Directors:

Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management has been delegated with the authority and responsibility by the Board for overseeing the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. All Board members have separate and independent access to the Company's management to fulfill their responsibilities, and upon reasonable request, seek independent professional advice under appropriate circumstances and at the Company's expenses. All Directors also have access to the company secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings. The Company provides the Board with information and explanations that are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are responded fully and promptly. Meeting agenda accompanied by relevant Board/committee papers are distributed to the Directors/committee members with reasonable notice in advance of a Board meeting. Minutes of Board meetings and Board committee meetings, which record in sufficient detail the matters considered and decisions reached by the Board thereat, including any concerns raised or dissenting views expressed by any Director, are kept by the company secretary and open for inspection by the Directors.

Key information regarding the Directors' academic and professional qualifications and other appointments is set out in the section headed "Directors and Senior Management" of this report.

During the Year, the Board maintained a high level of independence, with over one-third of the members of the Board being independent non-executive Directors who had exercised independent judgment. The independent non-executive Directors are expressly identified in all corporate communications whenever the names of the Directors are disclosed. There is no relationship in respect of any financial, business, family or other material relevant aspects among members of the Board, the senior management, substantial shareholders or controlling shareholders of the Company.

Board Meetings and Attendance

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. During the Year, the Board held six meetings and five written resolutions were passed by all Directors of the Board. The individual attendance of the Directors at the Board meetings is as follows:

	Attendance/ Number of meetings held
Ms. Zhou Yaxian *(Chairman and President)**	4/6
Mr. Shi Guicheng*	4/6
Mr. Ru Xiquan*	4/6
Mr. Mo Yunxi*	3/6
Dato' Sri Low Jee Keong	6/6
Mr. Tsui Yung Kwok	6/6
Mr. Meng Qinguo	6/6
Mr. Yang Xiaohu	6/6

* *During the Year, there were two out of six Board meetings relating to a transaction in which Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi had or were deemed to have material interest and thus they had abstained from attending and voting at these Board meetings.*

Independent Non-executive Directors

Although each of Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu has been serving as an independent non-executive Director for more than nine years, the Board considers that each of Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu is a person of integrity and independent in judgement and character. Each of Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu is independent of management and free from any business or other relationships or circumstances which could materially interfere with the exercise of his independent judgement.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and hence are independent of the Company.

Chairman and Chief Executive

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, that there is effective communication with the shareholders and that 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.

Appointment, Re-election and Removal of Directors

The Company has established the nomination committee (the "Nomination Committee") on 19 September 2009. The Nomination Committee has from time to time identified individuals suitably qualified to become Board members and make recommendations to the Board. The main consideration in selecting candidates for directorships is whether their characters, qualifications and experiences are appropriate for the businesses of the Group.

Save and except for Mr. Mo Yunxi, each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years commencing from 13 October 2018 and may be terminated by either party by giving not less than three months' prior written notice.

Mr. Mo Yunxi, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 16 May 2018 and may be terminated by either party by giving not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 13 October 2017 and may be terminated by either party by giving at least three months' written notice.

In accordance with article 84 of the articles of association (the "Articles") of the Company, at each annual general meeting, at least one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Board Diversity Policy

The Nomination Committee has adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to diversity of members of the Board, which is summarised below:

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Nomination Committee works to ensure a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and objectives. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Nomination Policy

The Board has adopted a nomination policy (the "Nomination Policy") on 28 December 2018 in relation to the nomination, appointment, re-appointment of new Directors and the nomination procedure of the Company, which provides that in evaluating and selecting any candidate for directorship, the Nomination Committee shall consider the candidates' character and integrity, professional qualifications, skills, knowledge and experience, independence, diversity on the Board, willingness to devote adequate time to discharge duties as a Board member and such other criteria that are appropriate to the business of the Company.

Dividend Policy

The Board has adopted a dividend policy (the "Dividend Policy") on 28 December 2018. A summary of this policy is disclosed as below.

Subject to the approval of the Shareholders and requirement of the relevant law, the Company shall pay annual dividends to the Shareholders if the Group is profitable, operation environment is stable and there is no significant investment or commitment made by the Group, after taking into account the factors as detailed below and determined by the Board from time to time. The remaining net profits will be used for the Group's development and operations. The Dividend Policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

In proposing any dividend payout, the Board shall also take into account, inter alia:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and each of the members of the Group;

(c) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

(d) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(e) the Group's expected working capital requirements and future expansion plans;

(f) general economic conditions of the Group, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and

(g) any other factors that the Board deems appropriate.

Any final dividends declared by the Company must be approved by an ordinary resolution of Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the Shareholders such interim dividends as appear to the Directors to be justified by the profits of the Group.

The Dividend Policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

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 save as disclosed below, all the Directors have confirmed that they had complied with the Model Code during the Period. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company.

On 25 July 2018, Ms. Zhou Yaxian purchased 184,000 shares of the Company via her wholly-owned company, Xian Sheng Limited, on the Stock Exchange which was in breach of Rule A.3(a)(ii) of the Model Code. The total purchase price of this transaction was approximately HK$81,000 (184,000 shares times an average purchase price of HK$0.43924 per Share). As Ms. Zhou was on a business trip, there was some miscommunication and Ms. Zhou inadvertently confirmed with the broker to place such order before obtaining clearance from the designated officer of the Board. Ms. Zhou confirmed that the breach was due to her inadvertence, in particular in relation to the commencement of blackout period. For clarity purpose, such purchase was effected at a time when there was no unpublished inside information.

In order to prevent potential breaches in the future, the Board has recommended the Company to review the reporting and monitoring procedures for dealing of shares of the Company under the Model Code, as well as enhancing its compliance measures and internal control procedures. The Board will also implement the following actions and procedures in order to minimize the chance of breach in future:

(i) More training in respect of compliance with the Listing Rules and the Model Code will be provided to the Directors, senior management and company secretary of the Company on a regular basis;

(ii) Re-circulation of and enhancement of internal communication guideline to the Directors, company secretary, and staff of the Company regarding the notification procedures and restrictions against dealing with shares of the Company during the blackout period under the Model Code.

Corporate Governance Duties

The Board is responsible for performing the corporate governance duties as set out in code provision D.3.1 of the Code. During the Year, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

Induction and Professional Development

All newly appointed Directors received comprehensive, formal training on the first occasion of their appointments to ensure they have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

To facilitate the Directors to discharge their responsibilities, they have been continuously updated with regulatory developments, business and market changes and the strategic development of the Group.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/ her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All the Directors also understand the importance of continuous professional development and are committed to participating in any suitable training to develop and refresh their knowledge and skills. All Directors including Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi, Dato' Sri Low Jee Keong, Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu, have participated in continuous professional development to develop and refresh their knowledge and skills and provided their training records for the Year to the Company.

Supply of and Access to Information

In respect of regular Board meeting, and so far as practicable in all other cases, an agenda accompanied by the relevant Board papers are sent to all Directors in a timely manner and at least 3 days before the intended date of a Board meeting.

All Directors are entitled to have access to Board papers, minutes and related materials.

Audit Committee

The Company established an audit committee (the "Audit Committee") on 19 September 2009 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, develop and implement policy on the engagement of external auditors to supply non-audit services, monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and significant financial reporting judgments contained therein and review of the risk management and internal control systems and the effectiveness of the issuer's internal audit function. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Tsui Yung Kwok who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee. The Audit Committee shall meet at least twice a year.

The terms of reference of the Audit Committee is available on the website of the Stock Exchange and the Company as required by the Code.

During the Year, the Audit Committee had reviewed the final results for the year ended 31 December 2017, the interim results for the six months ended 30 June 2018 of the Group and the Group's internal controls for the year ended 31 December 2017. The Group's final results for the Year had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and has complied with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held three meetings during the Year. Details of the attendance of the Audit Committee meetings are as follows:

	Attendance/ Number of meetings held
Mr. Tsui Yung Kwok *(Chairman)*	3/3
Mr. Meng Qinguo	3/3
Mr. Yang Xiaohu	3/3

Auditors' Remuneration

During the Year, the fees incurred for audit and non-audit services provided by the auditors to the Group are set out as follows.

Type of services	**Fee paid/payable**
	RMB'000
Non-audit services	625
Audit services	2,098
	2,723

Nomination Committee

The Company established the Nomination Committee pursuant to a resolution of the Directors passed on 19 September 2009. The primary duties of the Nomination Committee are to review the structure, size and composition (including gender, age, cultural and educational background, professional experience, length of service, skills, knowledge and experience) of the Board, identify individuals suitably qualified to become Board member, assess the independence of independent non-executive Directors, review the Board Diversity Policy and the progress on achieving the objectives set for implementing such policy, review the time commitment required of Directors and evaluate whether Directors have committed adequate time to discharge their liabilities, review and implement the Nomination Policy. A summary of the Board Diversity Policy and Nomination Policy are set out respectively in the section headed "Board Diversity Policy" and "Nomination Policy" in this Corporate Governance Report. The Nomination Committee consists of Ms. Zhou Yaxian, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Ms. Zhou Yaxian is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, assessing the independence of the independent non-executive Directors, reviewing the Company's Board Diversity Policy and the progress on achieving the objectives set for implementing such policy, and other related matters.

The terms of reference of the Nomination Committee is available on the website of the Stock Exchange and the Company as required by the Code.

The Nomination Committee held one meeting during the Year. Details of the attendance of the Nomination Committee meetings are as follows:

	Attendance/ Number of meetings held
Ms. Zhou Yaxian *(Chairman)*	1/1
Mr. Meng Qinguo	1/1
Mr. Yang Xiaohu	1/1

At the meeting, the Nomination Committee had reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive Directors, reviewed the Board Diversity Policy and other related matters of the Company.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") pursuant to a resolution of the Directors passed on 19 September 2009 in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee are to consult the chairman of the Board about their remuneration proposals for other executive Directors, make recommendation to the Board on the Company's remuneration policy and structure for all Directors' and senior management and make recommendation to the Board on the remuneration packages of individual Directors' and senior management. The Remuneration Committee comprises Ms. Zhou Yaxian, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Meng Qinguo is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once every year to discuss the remuneration packages and related matters in relation to the Directors and the senior management. No Director is allowed to be involved in deciding his/her own remuneration.

The terms of reference of the Remuneration Committee is available on the website of the Stock Exchange and the Company as required by the Code.

The Remuneration Committee held one meeting during the Year. Details of the attendance of the Remuneration Committee meeting are as follows:

	Attendance/ Number of meetings held
Mr. Meng Qinguo *(Chairman)*	1/1
Ms. Zhou Yaxian	1/1
Mr. Yang Xiaohu	1/1

At the meeting, the Remuneration Committee had reviewed and made recommendations to the Board on the remuneration policies of the Directors and the senior management as well as the remuneration packages for the years of 2017 and 2018 and the performance of the Directors.

Remuneration of Directors and Senior Management

The Group has paid and accrued the amounts of approximately RMB3,807,000, RMB1,594,000, RMB1,594,000, RMB1,594,000, RMB68,000, RMB186,000, RMB186,000 and RMB186,000 to Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi, Dato' Sri Low Jee Keong, Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu respectively, as Directors' remuneration, for the Year.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2018, there was no arrangement in which the Directors waived their remuneration.

Senior management's remuneration payment of the Group in the Year falls within the following bands:

	Number of individuals
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	2

Directors' and Auditors' Responsibility for the Financial Statements

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the Year. The auditors to the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the Year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

Financial Controller

The financial controller of the Company (the "Financial Controller") is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position and are in compliance with the disclosure requirement of the Companies Ordinance (Chapter 622, Laws of Hong Kong), the Listing Rules and other relevant laws and regulations. The Financial Controller reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Controller will review the control of financial risks of the Group and provide advices thereon to the Board.

Company Secretary

Mr. Ng Yuk Yeung has been appointed as the company secretary of the Company (the "Company Secretary") with effect from 19 September 2009. The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of notifiable transactions, connected transactions and inside information.

The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Articles at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for fostering and managing the Group's investors relationship. The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

Risk Management and Internal Control

The Group's risk management and internal control systems provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations effectively.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the Risk Management Taskforce. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Risk Management Taskforce identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established and assigned for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to provide internal audit services, which assist the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems are effective and adequate.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of the Securities and Futures Ordinance (the "SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Investor Relations

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels such as seminars with the media, analysts and fund managers. Designated senior management holds regular dialogue with institutional investors and analysts which enables them to keep abreast of the Group's latest developments. In addition, the Group's website presents the most updated information and the status of the business development of the Group.

General Meetings with Shareholders

The 2018 annual general meeting ("2018 AGM") was held on 23 May 2018. The attendance of the Directors at the 2018 AGM is as follows:

	Attendance/ Number of meetings held 2018 AGM
Ms. Zhou Yaxian *(Chairman and President)*	1/1
Mr. Shi Guicheng	1/1
Mr. Ru Xiquan	1/1
Mr. Mo Yunxi	1/1
Dato' Sri Low Jee Keong	1/1
Mr. Tsui Yung Kwok	1/1
Mr. Meng Qinguo	0/1
Mr. Yang Xiaohu	0/1

The Company's external auditors also attended the 2018 AGM.

Due to other pre-arranged business commitments which must be attended to by each of them, Mr. Meng Qinguo and Mr. Yang Xiaohu, being independent non-executive Directors, were not present at the 2018 AGM. However, the remaining Directors were all present at the 2018 AGM to ensure an effective communication with the shareholders thereat.

Communication with Shareholders

The Company and the senior management recognise the responsibility to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation.

The forthcoming annual general meeting of the Company will be held on 22 May 2019.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirement.

The Board and senior management also recognise the responsibility of safeguarding the interest of shareholders of the Company. The Company reports its financial and operating performance to shareholders through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Company's website (http://www.shenguan.com.cn).

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries or concerns to the Board in writing to the following address of the Hong Kong Office of the Company:

Shenguan Holdings (Group) Limited
Unit 2902, Sino Plaza
255–257 Gloucester Road
Causeway Bay
Hong Kong
Attention: Mr. Ng Yuk Yeung

Procedures for Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings by Shareholders

Pursuant to article 58 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transactions of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) may do so in the same manner.

Pursuant to article 85 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders may also contact the Company through the details as mentioned in the section headed "Procedures for Directing Shareholders' Enquiries to the Board" above for procedures for putting forward proposals at general meetings.

Constitutional Documents

There has been no change in the Company's constitutional documents during the Year.

Ms. Zhou Yaxian
Chairman of the Board and President of the Company

Aged 59, Ms. Zhou is a founder of the Group and a director of all the subsidiaries of the Company. She is primarily responsible for the Group's overall strategic planning, technology and business management. Ms. Zhou has nearly 39 years of experience in the collagen sausage casing industry. Before founding the Group, she had been involved in the trial production of collagen sausage casings in the Meat Products Factory of Wuzhou Food Products Corporation (梧州市食品總公司肉類製品廠) from 1979 to 1989 and was employed by Wuzhou Protein Casing Factory (梧州市蛋白腸衣廠) ("Wuzhou Protein Factory") in 1989, mainly responsible for technology development. She was appointed as the head of Wuzhou Protein Factory and the Deputy General Manager of Guangxi Wuzhou Zhongheng Group Co., Ltd. (廣西梧州中恒集團股份有限公司) in 1992 and 1997, respectively. Since 2004, Ms. Zhou has been the chairman of the board of directors and the general manager of Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan").

Ms. Zhou completed the course of Economic Management held by The Central Party School (中共中央黨校) in December 2001. She was a member of the 10th National People's Congress from February 2003 to February 2008 and is a senior engineer in biotechnology. She is one of the inventors of four national patents in respect of production method and facilities for collagen sausage casings and has received special allowances granted by the State Council since 2008. Ms. Zhou was awarded the "The Third Class Prize in National Science and Technology Advancement Award" (國家科學技術進步三等獎) by the National Science and Technology Committee of the PRC (中華人民共和國國家科學技術委員會) in 1995, the "Guangxi Outstanding Expert" (廣西優秀專家) by the Wuzhou Government in 2006, the "Influential Person in China Meat Industry" (中國肉類行業影響力人物) by the China Meat Association (中國肉類協會) in 2007, the "2007 Guangxi Outstanding Entrepreneur" (2007年度廣西優秀企業家) jointly by the Guangxi Enterprises Union (廣西企業聯合會) and the Guangxi Entrepreneurs Association (廣西企業家協會) in 2008, the "China Outstanding Female Entrepreneur" (中國傑出創業女性) by the China Female Entrepreneurs Association (中國女企業家協會) in 2008, the "Binshan Cup Technological Innovative Figure in China Meat Industry" (冰山杯－中國肉類產業科技創新人物) in 2009, the "Technological Leaders in China Meat Industry" (中國肉類產業科技領軍人物) by the China Meat Association (中國肉類協會) in 2012, and the "Influential Entrepreneur of China Meat Product Industry" (中國肉類食品行業影響力企業家) by the China Meat Association (中國肉類協會) in 2013. She was nominated as a deputy of the 19th Chinese Communist Party National Congress in 2017. She was appointed as a Director on 24 February 2009 and redesignated as an executive Director, and appointed as the Chairman of the Board on 19 September 2009.

Ms. Zhou is also a director of Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan"), Glories Site Limited ("Glories Site"), Xian Sheng Limited ("Xian Sheng") and Rich Top Future Limited ("Rich Top Future"), all are companies having an interest in the shares of the Company.

Mr. Shi Guicheng
Vice President and Executive Director

Aged 55, Mr. Shi's official Chinese name is 施貴成, he has previously used another Chinese name 施桂成. He is primarily responsible for the Group's machinery and equipment management. He is a mechanical engineer and has nearly 26 years of experience in the collagen sausage casing industry. Mr. Shi graduated from Guangxi Central Radio and TV University (廣西廣播電視大學) and attained the Professional Qualification Graduation Certificate in Mechanical Production in July 1987. Mr. Shi joined Wuzhou Protein Factory as the Head of Technology in 1993. He was appointed as the Deputy Head of Wuzhou Protein Factory in 2001 and has been the Deputy General Manager of Wuzhou Shenguan since 2004, responsible for machinery and equipment management, production safety and environmental protection. He was appointed as a Director on 19 September 2009.

Aged 56, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 28 years of experience in the collagen sausage casing industry. Mr. Ru graduated from Guangxi Central Radio and TV University (廣西廣播電視大學) and attained the Professional Qualification Graduation Certificate in Finance and Accounting in July 1989. He obtained the certificate of accounting professional issued by the Wuzhou Finance Bureau in November 2001. He also completed the course of Economic Management held by The Central Party School (中共中央黨校) in 2002. Mr. Ru is an accountant and joined Wuzhou Protein Factory as the Head of the Finance and Accounting Department in 1990. He has been the Chief Accountant of Wuzhou Shenguan since 2004, responsible for matters relating to accounting and finance. He was appointed as a Director on 19 September 2009.

Mr. Ru Xiquan
Vice President and Executive Director

Mr. Mo Yunxi
Vice President and Executive Director

Aged 50, Mr. Mo is primarily responsible for the Group's production and corporate management. He has long been engaged in product development and has nearly 26 years of experience in the collagen sausage casing industry. Mr. Mo graduated from Tianjin College of Commerce (天津商學院), majoring in Food Engineering in July 1990. Mr. Mo joined Wuzhou Protein Factory in 1993 and he has been the Deputy General Manager of Wuzhou Shenguan since 2004. Mr. Mo is a senior engineer in food engineering. He was awarded the "First Prize in Wuzhou Science and Technology Advancement" (梧州市科學技術進步一等獎) and the "First Prize in Guangxi Outstanding Achievement on New Products" (廣西新產品優秀成果一等獎) by the Wuzhou Government and The People's Government of Guangxi, respectively, in 2008. He was appointed as a Director on 16 May 2012.

Non-executive Director

Dato' Sri Low Jee Keong

Aged 53, Dato' Sri Low's Chinese name 劉子強 is an unofficial name. Dato' Sri Low has nearly 26 years of experience in the collagen sausage casing industry. Before founding the Group, Dato' Sri Low, through LJK Frozen SDN. BHD. ("LJK") (formerly known as Exceltech Enterprise SDN. BHD.), started his business relationship with Wuzhou Protein Factory for the resale of edible collagen sausage casing products in Malaysia in 1993, and has maintained the relationship with Wuzhou Shenguan after the acquisition of the entire ownership rights of Wuzhou Protein Factory by Wuzhou Shenguan in November 2004. Dato' Sri Low is a founder of the Group and has been a director of Wuzhou Shenguan since 2004. Dato' Sri Low has not been involved in the Group's day-to-day operations as he resides in Malaysia. However, he has participated, and will continue to participate, in the strategic planning and decision-making processes in the Group's business operations. He is also a director of Full Win Consultants Limited and Excel Gather Limited, both are subsidiaries of the Company. Dato' Sri Low was awarded a Datukship by Pahang State Government of Malaysia on 24 October 2012. He was appointed as a Director on 19 September 2009. Dato' Sri Low is a director of Rich Top Future which has an interest in the share of the Company.

Independent Non-executive Directors

Mr. Tsui Yung Kwok

Aged 50, Mr. Tsui was awarded a bachelor's degree in Business (Accounting) by Curtin University of Technology, Australia in August 1992 and a master degree in Corporate Governance by The Hong Kong Polytechnic University in December 2007. Mr. Tsui has nearly 25 years of experience in accounting and finance. He held a senior position in an international accounting firm in Hong Kong from 1994 to 2003 and was the Chief Financial Officer of Qin Jia Yuan Media Services Company Limited (Hong Kong stock code: 02366), the shares of which are listed on the Stock Exchange, from 2003–2004. Mr. Tsui has been the Chief Financial Officer and the Company Secretary of Ju Teng International Holdings Limited (Hong Kong stock code: 03336), the shares of which are listed on the Stock Exchange, since 2004. Mr. Tsui became an executive director of Ju Teng International Holdings Limited in June 2005. Mr. Tsui resigned as the company secretary of Ju Teng International Holdings Limited on 1 March 2017. Mr. Tsui has also served as an independent non-executive director of SITC International Holdings Company Limited (Hong Kong stock code: 01308), 361 Degrees International Limited (Hong Kong stock code: 01361), Cabbeen Fashion Limited (Hong Kong stock code: 02030) and Intron Technology Holdings Limited (Hong Kong stock code:1760) since September 2010, September 2012, February 2013 and June 2018, respectively, the shares of which are all listed on the Stock Exchange. Mr. Tsui is a member of Chartered Accountants Australia and New Zealand, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries. He was appointed as a Director on 19 September 2009.

Mr. Meng Qinguo

Aged 61, Mr. Meng was awarded a master degree and a doctorate degree in Law by Wuhan University (武漢大學) in July 1985 and July 2001, respectively. He had been a Senior Visiting Scholar at the University of California, Berkeley, member of the Supervisory Division of Higher Education Institutions Legal Education of Ministry of Education of China (教育部高等學校法學學科教學指導委員會委員), director of China Law Society (中國法學會), the Vice-Chairperson of the Consumer Protection Law Research Centre of China Law Society (中國法學會消費者權益保護法研究會), standing director of China Civil Law Society (中國法學會民法學會), and the Vice-Chairperson of Guangxi Law Society (廣西法學會). Mr. Meng is currently a tutor to Ph.D students in civil and commercial law at Wuhan University (武漢大學) and the Vice-Chairperson of China Civil Law Society (中國法學會民法學會) and has received government special allowances granted by the State Council.

Mr. Meng was an independent director of Sealand Securities Co., Ltd. (國海證券股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange, until December 2014, and he had been appointed as special legal consultant since January 2015. Mr. Meng was appointed as a Director on 19 September 2009.

Mr. Yang Xiaohu

Aged 44, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 21 years of experience in the financial industry. He joined Everbright Securities Company Limited (光大證券股份有限公司), focusing on investment banking in 1998 and is currently the General Manager of the Investment Banking Division (Shenzhen Operations) of Everbright Securities Company Limited. He was appointed as a Director on 19 September 2009.

Senior Management

Ms. Cai Yueqing
Vice President

Aged 63, Ms. Cai is primarily responsible for the Group's administration and logistics. She has nearly 26 years of experience in the collagen sausage casing industry. Ms. Cai graduated from Wuzhou Branch of Guangxi University (廣西大學梧州分校) and attained the Professional Qualification Certificate in Quality Management in January 1998. Ms. Cai joined Wuzhou Protein Factory as the Supervisor of the Quality Control Office in 1992. She was appointed as the Deputy Head of Wuzhou Protein Factory in 1994 and has been the Deputy General Manager of Wuzhou Shenguan since 2004, responsible for production management and quality control. She was appointed as a Director on 19 September 2009 and retired on 1 June 2014. After her retirement, she has remained as a vice president of the Company.

Aged 57, Mr. Wen is primarily responsible for the Group's human resources, logistics, tendering of materials and projects, investment and development planning, marketing and development plans. Mr. Wen graduated with a bachelor's degree in Engineering from Guangdong Ocean University in July 1982 and was named Senior Engineer in technological engineering in 1996. He was responsible for plan control, economy management, state-owned and collective assets management as well as technology management. Mr. Wen was the Deputy Officer of Wuzhou Planning Committee (梧州市計劃委員會), Deputy Officer of Wuzhou City Collective Industry Association (梧州市城鎮集體工業聯社), Deputy Chief of Wuzhou Medicinal Chemistry Bureau (梧州市醫藥化學工業局), Deputy Officer of Wuzhou Economic and Commerce Committee (梧州市經濟貿易委員會), Deputy Officer of Wuzhou People's Government Asset Management Committee (梧州市人民政府國有資產監督管理委員會) and Deputy Chief of Wuzhou Technology Bureau (梧州市科學技術局) from 1995 to 2010. He has been the Vice President of Wuzhou Shenguan since October 2010.

Mr. Wen Jinpei
Vice President

Mr. Ng Yuk Yeung
Financial Controller

Aged 45, Mr. Ng joined the Company in February 2009 and is responsible for supervising the financial reporting, corporate finance and investors relationship. Mr. Ng has nearly 23 years of experience in auditing and financial management, which was mostly gained from positions in one of the international firms of certified public accountants from 1996 to 1999 and from 2001 to 2002, and in China Resources Beer (Holdings) Company Limited (formerly known as China Resources Enterprise Limited, Hong Kong stock code: 00291), the shares of which are listed on the Stock Exchange, from 2002 to 2007. Mr. Ng served as an independent non-executive director of BGMC International Limited (Hong Kong stock code: 01693) and Dowway Holdings Limited (Hong Kong stock code: 8403) since July 2017 and May 2018, respectively. Mr. Ng attained his bachelor's degree in Computer Science from the University of Hong Kong in November 1995 and is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a CFA Charter holder. Mr. Ng is also the Company Secretary of the Company.

The Directors present their report and the audited financial statements for the Year.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Group's major subsidiaries are set out in note 1 to the financial statements. The Group is principally engaged in the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, food products, skin care and health care products and bioactive collagen products.

Business Review

Further discussion and analysis of the activities of the Group for the Year and an indication of likely future developments in the Group's business can be found in the section headed "Management Discussion and Analysis" as set out on pages 7 to 15 of this annual report. These discussions form part of this directors' report.

Principal Risks and Uncertainties

A number of factors may affect the results and business operations of the Group, some of which are inherent to the industry and some are from external sources. Major risks are summarized below.

The Group's business depends on a stable and adequate supply of raw materials, which is subject to price volatility and other risks

The production volume and production costs of the Group are dependent on the Group's ability to source at acceptable prices and maintain a stable and sufficient supply of raw materials such as cattle's inner skins and packaging materials. If the Group is unable to obtain raw materials in the quantities and of a quality that the Group requires, the volume or quality of the production and the revenue of the Group may be adversely affected.

The Group may face competition from international competitors or competition from other substitutes for edible collagen sausage casing products which may affect the profits of the Group

Overseas competitors may take measures such as establishing production lines in the PRC or reducing price of their products to gain entry into the PRC market. This may cause the Group to experience downward pressure on the price and profit margins.

The Group may also face competition from other substitute products for edible collagen sausage casing products such as natural sausage casing. If the customers prefer any of the substitutes for edible collagen sausage casing products over the products of the Group, the business and profitability of the Group may be adversely affected.

Any substantial changes in the domestic demand of the Group's products in the PRC may adversely affect the performance and profitability of the Group

Sales in the PRC represent a significant proportion of the total revenue of the Group. Accordingly, the operating results and financial position of the Group are largely subject to the economic, political, social and legal developments in the PRC as well as changes in the domestic demand for the Group's products in the PRC. There is no assurance that such changes in the PRC will not adversely affect the performance and profitability of the Group.

Environmental Policies, Performance and Compliance with Laws and Regulations

The Group is committed to promoting clean production, enhancing the resources utilization, and strives to ensure that its business operations have minimal impact on the environment through recycling and conserving energy.

The Group and its activities are subject to requirements under various laws. The laws and regulations which have a significant impact on the Group include, among others, The Food Safety Law of the PRC (《中華人民共和國食品安全法》), The Regulations on the Implementation of the Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》), The Standardization Law of the PRC (《中華人民共和國標準化法》), The Provisional Detailed Rules for Administration and Supervision of the Quality and Safety in Food Production and Processing Enterprises (《食品生產加工企業質量安全監督管理實施細則(試行)》), The Law of Product Quality of the PRC (《中華人民共和國產品質量法》), The Environment Protection Law of PRC (《中華人民共和國環境保護法》), The Production Safety Law of the PRC (《中華人民共和國安全生產法》), The Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), The Metrology Law of People's Republic of China (《中華人民共和國計量法》) and The Regulation of the People's Republic of China on the Administration of Production License for Industrial Products (《中華人民共和國工業品生產許可證管理條例》). The Group is committed to maintaining legal compliance in business operations and has put in place in-house rules and work procedures to ensure that the Group's operation is in compliance with applicable laws and regulations in material respects.

Key Relationships with Employees, Customers and Suppliers

The Directors consider that human resources are essential to the business success and the development of the Group in the long run. The Group ensures that the remuneration of staff is commensurate with market level and on-the-job training and development are provided to staff members. The Directors also recognize that customers and suppliers are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its suppliers and customers and has ongoing communication with the customers and suppliers through various channels to obtain their feedback and suggestions.

Results and Dividends

The Group's profit for the Year and the Group's financial position at that date are set out in the financial statements on pages 52 to 137 of this annual report.

The Directors recommended the payment of a final dividend of HK2.0 cents per ordinary share and a special final dividend of HK1.6 cents per ordinary share for the Year to shareholders whose names appear on the register of members of the Company on 31 May 2019 (Friday) out of the share premium account of the Company. 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 19 June 2019 (Wednesday).

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 22 May 2019 (Wednesday), the register of members of the Company will be closed from 17 May 2019 (Friday) to 22 May 2019 (Wednesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 16 May 2019 (Thursday). 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 28 May 2019 (Tuesday) to 31 May 2019 (Friday), both days inclusive. The record date will be 31 May 2019 (Friday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 27 May 2019 (Monday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final and the special final dividends (if approved at the forthcoming annual general meeting), all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above respectively.

Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 138 of this annual report. This summary does not form part of the audited financial statements.

Share Capital and Share Options

Details of movements in the Company's authorised or issued share capital are set out in note 27 to the financial statements. There is no share option outstanding, granted, cancelled and lapsed under the share option scheme of the Company during the Year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Month	Number of shares repurchased	Number of shares cancelled	Price per share Highest	Price per share Lowest	Total price paid
			HK$	*HK$*	*HK$*
September 2018	5,716,000	–	0.4050	0.3900	2,288,130
October 2018	8,194,000	11,794,000	0.4100	0.3900	3,287,960
November 2018	6,544,000	4,928,000	0.4400	0.4000	2,770,940
December 2018 *(Note)*	5,324,000	7,976,000	0.4500	0.4350	2,376,890

Note: The 1,080,000 shares repurchased but not yet cancelled during December 2018 were subsequently cancelled in January 2019.

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

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

Distributable Reserves

For the Year, the loss of the Company amounted to approximately HK$5,910,000. The Company's reserves available for distribution comprise share premium, treasury shares and retained profits. Under the Companies Law of the Cayman Islands, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2018, the Company had distributable reserves amounting to approximately HK$334,617,000, of which approximately HK$116,297,000 has been proposed as a final dividend for the Year, calculated in accordance with statutory provisions applicable in the Cayman Islands.

Charitable Contributions

During the Year, the Group made charitable contributions totalling RMB2,092,272.

Major Customers and Suppliers

During the Year, sales to the Group's five largest customers accounted for approximately 57.1% of the total sales for the year and sales to the largest customer included therein amounted to approximately 23.6%. Purchases from the Group's five largest suppliers accounted for approximately 88.7% of total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 48.1%.

Wuzhou Junye Trademark Printing Material Co., Ltd ("Wuzhou Junye Printing Material") and Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan") were one of the Group's five largest suppliers for the Year. As at the date of this report, the registered capital of Wuzhou Junye Printing Material was owned as to 99.2% by Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian ("Ms. Zhou"), an executive Director and one of the controlling shareholders of the Company, and 0.8% by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou.

On the other hand, Ms. Zhou, together with her associates and Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, each an executive Director, own more than 30% of the equity interest in Guangxi Zhiguan.

Save as disclosed above, none of the Directors or any of their close associates (as defined under the Listing Rules) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Emolument Policy

The Remuneration Committee was established for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of which are set out in the paragraph headed "Share Option Scheme" below.

Directors

The Directors during the Year and as at the date of this annual report were as follows:

Executive Directors:

Ms. Zhou Yaxian *(Chairman and President)*
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

Non-executive Director:

Dato' Sri Low Jee Keong

Independent Non-executive Directors:

Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

In accordance with article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The non-executive Director and independent non-executive Directors are appointed for periods of three years and two years, respectively.

The Company has received annual confirmations of independence from Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu, and as at the date of this annual report, the Company still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 28 to 31 of this annual report.

Directors' Service Contracts

Save and except for Mr. Mo Yunxi, each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years commencing from 13 October 2018 and may be terminated by either party by giving not less than three months' prior written notice.

Mr. Mo Yunxi, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 16 May 2018 and may be terminated by either party by giving not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 13 October 2017 and may be terminated by either party by giving at least three months' written notice.

Apart from the foregoing, no Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

The Directors' emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of the remuneration of the Directors are set out in note 8 to the financial statements.

Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in note 36 to the financial statements and in the section headed "Connected Transactions" in this annual report, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the Year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

1. Interests and Short Positions in the Shares of the Company (the "Shares")

Name of Director	Capacity/Nature	No. of Shares held/ interested in	Approximate percentage of issued share capital of the Company
Ms. Zhou Yaxian ("Ms. Zhou")	Interest of controlled corporation *(Note 2)*	2,241,006,000 (L)	69.28%
	Beneficial owner	200,000 (L)	0.01%
Dato' Sri Low Jee Keong ("Dato' Sri Low")	Interest of controlled corporation *(Note 3)*	78,936,000 (L)	2.44%
Mr. Shi Guicheng ("Mr. Shi")	Beneficial owner	800,000 (L)	0.02%
Mr. Ru Xiquan ("Mr. Ru")	Beneficial owner	800,000 (L)	0.02%
Mr. Mo Yunxi ("Mr. Mo")	Beneficial owner	800,000 (L)	0.02%

2. Long Positions in the Ordinary Shares of Associated Corporations

Name of Director	Name of the associated corporation	Capacity/Nature	No. of shares held/ interested in	Approximate percentage of interest in the associated corporation
Ms. Zhou	Rich Top Future Limited ("Rich Top Future")	Interest of controlled Corporation *(Note 2)*	65,454	65.45%
Dato' Sri Low	Rich Top Future	Interest of controlled Corporation *(Note 3)*	20,835	20.84%

Notes:

1. The letters "L" denote a long position in the Shares.

2. Ms. Zhou holds 100% interest in Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan") which holds 100% interest in Glories Site Limited ("Glories Site"), which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng Limited ("Xian Sheng"). Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Hong Kong Shenguan, Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou is a director of each of Hong Kong Shenguan, Glories Site, Xian Sheng and Rich Top Future.

3. Dato' Sri Low holds 100% interest in Wealthy Safe Management Limited ("Wealthy Safe"), which holds 78,936,000 Shares. Therefore, Dato' Sri Low is deemed or taken to be, interested in all the Shares held by Wealthy Safe for the purpose of the SFO. Dato' Sri Low holds 100% interest in Brighten Lane Limited, which holds approximately 20.84% interest in Rich Top Future.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had registered any interests or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company

As at 31 December 2018, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity/Nature	No. of Shares held/ interested in	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	1,936,434,000 (L)	59.87%
Xian Sheng	Beneficial owner	248,724,000 (L)	7.69%
Glories Site	Interest of controlled corporation *(Note 2)*	1,936,434,000 (L)	59.87%
Hong Kong Shenguan	Interest of controlled corporation *(Note 3)*	2,185,158,000 (L)	67.56%
	Beneficial owner	55,848,000 (L)	1.73%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse *(Note 4)*	2,241,206,000 (L)	69.29%

Notes:

1. The letters "L" denote a long position in the Shares.

2. Glories Site holds approximately 65.45% interest in Rich Top Future. Therefore, Glories Site is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future for the purpose of the SFO.

3. Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Hong Kong Shenguan is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO.

4. Ms. Zhou holds 100% interest in Hong Kong Shenguan and Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Hong Kong Shenguan, Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou beneficially owns 200,000 Shares. Mr. Sha is the spouse of Ms. Zhou and therefore, Mr. Sha is deemed or taken to be, interested in all the Shares in which Ms. Zhou is interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Competing Interests

On 26 January 2015, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") (a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Mr. Sha, the spouse of Ms. Zhou, the Chairman of the Board and an executive Director, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in Guangxi Wuzhou Sanjian Pharmaceutical Company Limited (廣西梧州三箭製藥有限公司) ("Sanjian Pharmaceutical") at a consideration of RMB4,810,000 (the "Acquisition"). Upon completion of the Acquisition, Sanjian Pharmaceutical has become a wholly-owned subsidiary of Wuzhou Shenguan.

Subsequent to the Acquisition, Guangxi Wuzhou Shennong Pharmaceutical Co., Ltd (廣西梧州神農藥業有限公司) ("Shennong Pharmaceutical"), a joint venture which is owned as to 72% by Ms. Zhou and is principally engaged in the manufacture and sale of pharmaceutical products in the PRC, has become a competing business of Ms. Zhou with the Group.

As disclosed in the prospectus issued by the Company dated 30 September 2009, pursuant to the deed of non-competition dated 19 September 2009 entered into by Ms. Zhou in favour of the Company (the "Deed of Non-competition"), when business opportunities which may compete with the business of the Group arise, Ms. Zhou or any of her associates shall offer to the Company the right of first refusal (the "Right of First Refusal") to take up such business opportunities.

As such, pursuant to the Deed of Non-competition, Ms. Zhou served a written notice to the Company on 8 January 2015 in respect of such matter and offered to the Company the Right of First Refusal to acquire 72% equity interest in Shennong Pharmaceutical for a consideration of RMB17,000,000 (the "Right of First Refusal") and seeked the Company's decision as to whether it will exercise its Right of First Refusal to acquire the said 72% equity interests in Shennong Pharmaceutical.

The Directors (excluding Ms. Zhou who had abstained from voting) were of the opinion that it was not appropriate and was not in the best interests of the Company and its shareholders as a whole, for the Company to exercise the Right of First Refusal.

For details of the Acquisition and non-exercise of the Right of First Refusal, please refer to the announcement of the Company dated 26 January 2015.

Save as disclosed above, none of the Directors and their close associates (as defined under the Listing Rules), and the substantial shareholders of the Company had any interests in any business, which competed with or might compete with the business of the Group.

The Board has established a committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review on an annual basis the non-competition undertakings (the "Non-competition Undertakings") given by Ms. Zhou, Dato' Sri Low and Mr. Wei Cheng in three deeds of non-competition respectively entered into by Ms. Zhou, Dato' Sri Low and Mr. Wei Cheng, all dated 19 September 2009. Ms. Zhou, Dato' Sri Low and Mr. Wei Cheng confirmed that (a) they have provided all information necessary for the enforcement of the Non-competition Undertakings as requested by the Committee from time to time; and (b) from the effective date of the Non-competition Undertakings and up to 31 December 2018, they had complied with the Non-competition Undertakings. The Committee was not aware of any non-compliance with the Non-competition Undertakings given by Ms. Zhou, Dato' Sri Low and Mr. Wei Cheng during the same period.

Share Option Scheme

In order to attract and retain the eligible persons, provide additional incentive to them and promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 19 September 2009 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the Shares to, inter alia, any employees (full-time or part-time), directors, consultants and advisors of the Group or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 13 October 2009 and shall be valid and effective for a period of ten years commencing on 19 September 2009, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00. The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Stock Exchange for less than five trading days, the issue price shall be used as the closing price for any trading day which fall within the period before the date of listing of the Company's shares (the "Listing Date").

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the Shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issue at any time.

The total number of securities available for issue under the Scheme as at the date of this report was 314,520,000 Shares which represented approximately 9.7% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Further details of the Scheme are disclosed in note 28 to the financial statements.

Connected Transactions

During the Year, the Group had the following continuing connected transactions and connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Continuing Connected Transactions

The Group carried out or entered into the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.76 of the Listing Rules) during the Year:

(i) Transactions with Wuzhou Junye Trademark Printing Material Co., Ltd.

On 9 November 2017, the Company entered into a sale and purchase agreement ("Junye Agreement") with Wuzhou Junye Trademark Printing Material Co., Ltd.* (梧州駿業商標印刷有限公司) ("Wuzhou Junye Printing Material"), pursuant to which Wuzhou Junye Printing Material agreed to supply packaging materials to the Company (or any one or more of its subsidiaries) for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. The purchases by the Group from Wuzhou Junye Printing Material under the Junye Agreement for the Year amounted to RMB25,603,000 and the annual cap set in the said agreement for the Year is RMB29,550,000.

Wuzhou Junye Printing Material is owned by Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian ("Ms. Zhou"), as to 99.2% and by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, as to 0.8%. Ms. Zhou is a Director and a controlling shareholder of the Company. Wuzhou Junye Printing Material is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(ii) Transactions with Wuzhou Zhongbo Packaging Co., Ltd.

On 9 November 2017, the Company entered into a sale and purchase agreement ("Zhongbo Agreement") with Wuzhou Zhongbo Packaging Co., Ltd.* (梧州市中柏包裝有限公司) ("Wuzhou Zhongbo Packaging"), pursuant to which Wuzhou Zhongbo Packaging agreed to supply packaging materials to the Company (or any one or more of its subsidiaries) for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. The purchases by the Group from Wuzhou Zhongbo Packaging under the Zhongbo Agreement for the Year amounted to RMB5,709,000 and the annual cap set in the said agreement for the Year is RMB6,690,000.

Wuzhou Zhongbo Packaging is owned by Mr. Sha, the spouse of Ms. Zhou, as to 98.33% and by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, as to 1.67%. Ms. Zhou is a Director and a controlling shareholder of the Company. Wuzhou Junye Printing Material is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(iii) Transactions with LJK Frozen SDN. BHD, Exceltech Global Investment Pte Limited and Exceltech International SDN. BHD.

On 9 November 2017, the Company entered into a sale and purchase agreement ("LJK Agreement") with LJK Frozen SDN. BHD ("LJK"), Exceltech Global Investment Pte Limited (優良國際投資有限公司) ("Exceltech Global") and Exceltech International SDN. BHD. ("Exceltech"), pursuant to which the Company (or any one or more of its subsidiaries) agreed to supply products to LJK, Exceltech Global and Exceltech for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. The sales from the Group to LJK and Exceltech Global under the LJK Agreement for the Year amounted to RMB4,234,000 and the annual cap set in the said agreement for the Year is RMB5,000,000.

LJK is owned by Dato' Sri Low Jee Keong ("Dato' Sri Low"), a Director, as to 80%, Exceltech Global is wholly owned by Dato' Sri Low and Exceltech is owned by Dato' Sri Low as to 85%. Therefore, each of LJK, Exceltech Global and Exceltech is a connected person of the Company under Chapter 14A of the Listing Rules.

(iv) Transactions with Guangxi Zhiguan Industrial Development Co., Limited

On 9 November 2017, the Company entered into a framework agreement ("Zhiguan Framework Agreement") with Guangxi Zhiguan Industrial Development Co., Limited* (廣西志冠實業開發有公司) ("Guangxi Zhiguan"), pursuant to which Guangxi Zhiguan agreed to supply cattle inner skin to the Company (or any one or more of its subsidiaries) for a period commencing from 1 January 2018 and ending on 31 December 2020. The purchases by the Group from Guangxi Zhiguan under the Zhiguan Framework Agreement for the Year amounted to RMB102,584,000 and the annual cap set in the said agreement for the Year is RMB103,240,000.

Ms. Zhou, together with her associates and Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, each an executive Director, own more than 30% of the equity interest in Guangxi Zhiguan and thus Guangxi Zhiguan is a connected person of the Company under Chapter 14A of the Listing Rules.

For further details of the transactions stated in (i), (ii) and (iii) above, please refer to the announcements issued by the Company dated 9 November 2017. For further details of the transactions stated in (iv) above, please refer to the announcements issued by the Company dated 9 November 2017 and the circular of the Company dated 6 December 2017.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.76 of the Listing Rules) in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above (other than continuing connected transactions that are exempted under Rule 14A.76 of the Listing Rules) by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Connected Transactions

Acquisition and disposal of land use right of Wuzhou

On 29 September 2017, Wuzhou Shensheng Collagen Products Co., Ltd.* (梧州市神生膠原製品有限公司) ("Shensheng Collagen"), a wholly-owned subsidiary of the Company, entered into an exchange agreement with Guangxi Zhiguan, pursuant to which (i) Shensheng Collagen agreed to dispose of its land use right of a parcel of land located at Dachongkou (2), Sifu Cun, Cheng dong Zhen, Wan Xiu District, Wuzhou ("Land A") to Guangxi Zhiguan in consideration of the land use right of a parcel of land located at Xi Chong (2), Sifu Cun, Cheng dong Zhen, Wan Xiu District, Wuzhou ("Land B") acquired from Guangxi Zhiguan; and (ii) Guangxi Zhiguan agreed to dispose of its land use right in Land B to Shensheng Collagen in consideration of the land use right in Land A acquired from Shensheng Collagen.

The consideration has been agreed by Shensheng Collagen and Guangxi Zhiguan after arm's length negotiations and has been determined by reference to the valuation report on each of Land A and Land B dated 27 September 2017 issued by Guangxi Hesheng Real Estate Valuation Company Limited* (廣西合生土地房地產評估有限公司), an independent valuer, the market value of each of Land A and Land B was estimated to be approximately RMB6.39 million. The transfer of land right uses in both Land A and Land B was registered with Wuzhou Land Resource Bureau by Shensheng Collagen and Guangxi Zhiguan and completed in December 2017.

As at the date of this exchange agreement, Ms. Zhou, an executive Director and controlling Shareholder, is entitled to exercise or control the exercise of 30% or more of the voting power at any general meeting of Guangxi Zhiguan. As such, Guangxi Zhiguan is an associate of Ms. Zhou and therefore a connected person of the Company. The entering into of the Exchange Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

For further details, please refer to the Company's announcement dated 7 February 2018.

Related Party Transactions

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 36(a) to the financial statements are "continuing connected transactions" in Chapter 14A of the Listing Rules but are exempted from the reporting, announcement or independent shareholders' approval requirements under the Listing Rules, and the related party transactions disclosed in notes 36(c) and (d) to the financial statements are not regarded as connected transactions or continuing connected transactions under the Listing Rules.

Corporate Governance

The Company has applied the code provisions set out in the Code contained in Appendix 14 to the Listing Rules. The Company has complied with the code provisions of the Code for the year ended 31 December 2018, save for the exceptions explained in the Corporate Governance Report in this annual report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this annual report.

Event after the Balance Sheet Date

There was no important events affecting the Group that have occurred since the end of 31 December 2018.

Permitted Indemnity Provisions

Pursuant to article 164 of the articles of association of the Company, every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

Auditors

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Ernst & Young. Ernst & Young will retire as auditors of the Company and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhou Yaxian
Chairman

Hong Kong
18 March 2019

* *For identification purpose only*

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 137, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets As at 31 December 2018, the Group had goodwill (net of impairment) of nil and technology knowhow as included in intangible assets, of approximately RMB86.7 million relating to bioactive collagen products cash-generating unit ("CGU"). In accordance with HKAS 36 *Impairment of Assets*, management is required to test goodwill for impairment at least annually. Management is also required to determine whether there is any impairment indicator for the intangible assets with reference to the recoverable amount of the CGU. Impairment of goodwill of approximately RMB22.8 million was provided for the year ended 31 December 2018. We focused on this area because this assessment is based on the recoverable amount of the CGU as determined in a value-in-use calculation, which required significant management judgement with respect to pre-tax cash flow projection based on financial budget approved by management covering an eight-year period. The projection is largely based on management expectations and estimates of future results of sale of bioactive collagen products. Related disclosures are included in notes 3, 16 and 17 to the consolidated financial statements.	Our audit procedures included the assessment of the valuation methodology and the key assumptions, such as the sales growth rate, budgeted gross margin and the discount rate based on our knowledge of the business and industry. We checked the input data to supporting evidence, such as the approved budgets and the recent historical results of the CGU. We performed sensitivity analysis for the recoverable amount of the CGU. We also assessed the adequacy of the disclosures in the consolidated financial statements.

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Provision for obsolete and slow-moving inventories As at 31 December 2018, the Group had inventories (net of provision) amounting to approximately RMB606.8 million, which represented 19.5% of the total assets of the Group. As at 31 December 2018, provision for inventories of approximately RMB14.2 million was recorded by the Group. We focused on this area because the balance of inventories was material to the consolidated financial statements. Also, the determination of provision involved significant estimates. Related disclosures are included in notes 3 and 19 to the consolidated financial statements.	Our audit procedures included the assessment of controls over identifying and valuing obsolete, damaged, slow-moving, excess and other inventory items for which their costs may not be fully recoverable; checking the ageing of inventories and sales and usage after the end of the reporting period; and also evaluating the estimates and underlying data used by the Group in calculating the net realisable values of inventories.

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses ("ECL") for trade receivables As at 31 December 2018, the Group had trade receivables (net of loss allowance) of approximately RMB183.6 million. As at 31 December 2018, a loss allowance for trade receivables of RMB26.2 million was recorded by the Group. The Group has adopted HKFRS 9 on its mandatory effective date of 1 January 2018. The key changes arising from the adoption of HKFRS 9 are that the Group's loss allowance is now estimated based on an expected credit loss model rather than an incurred loss model. Management uses the simplified approach to calculate ECL for trade receivables. Management has engaged an independent specialist to determine the calculation of the ECL. We focused on this area because significant management judgements and estimates were involved in determining the ECL with reference to historical loss record and forward-looking information. Related disclosures are included in notes 3 and 20 to the consolidated financial statements.	We obtained an understanding of the Group's credit risk management and practices, and assessed the Group's policy on determining the loss allowance in accordance with the requirements of HKFRS 9, including an evaluation of management judgements on (i) the level of disaggregation of categories for collective assessment; and (ii) the use of available credit risk information, including historical and forward-looking information. We obtained and reviewed the provision matrix established by management which was based on the Group's historical credit loss experience and, with the aid of the external specialist, adjusted for forward-looking factors specific to the debtors and the economic environment. We assessed the competence, objectivity and independence of the Group's external specialist.

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CHIU, Caroline Su Yuen.

Ernst & Young
Certified Public Accountants
Hong Kong
18 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**899,016**	1,007,991
Cost of sales		**(586,470)**	(767,303)
Gross profit		**312,546**	240,688
Other income and gains, net	5	**36,836**	34,942
Selling and distribution expenses		**(39,686)**	(43,621)
Administrative expenses		**(202,630)**	(158,054)
Finance costs, net	7	**(3,545)**	(8,726)
Share of (loss)/profit of an associate		**(7,430)**	102
PROFIT BEFORE TAX	6	**96,091**	65,331
Income tax expense	10	**(24,907)**	(8,965)
PROFIT FOR THE YEAR		**71,184**	56,366
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(886)**	2,514
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		**(886)**	2,514
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**70,298**	58,880
Profit attributable to:			
Owners of the Company		**80,259**	68,794
Non-controlling interests		**(9,075)**	(12,428)
		71,184	56,366
Total comprehensive income attributable to:			
Owners of the Company		**79,373**	71,308
Non-controlling interests		**(9,075)**	(12,428)
		70,298	58,880
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		
Basic (RMB cents per share)		**2.5**	2.1
Diluted (RMB cents per share)		**2.5**	2.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,194,793	1,273,487
Investment properties	14	7,799	7,594
Prepaid land lease payments	15	122,010	125,230
Goodwill	16	–	22,760
Other intangible assets	17	87,809	139,514
Investment in an associate	18	47,389	68,426
Deferred tax assets	26	27,139	28,717
Long term prepayments and other receivables	21	10,064	6,909
Time deposits	22	130,000	–
Total non-current assets		1,627,003	1,672,637
CURRENT ASSETS			
Inventories	19	606,784	574,598
Trade and bills receivables	20	236,588	293,913
Prepayments, other receivables and other assets	21	57,407	81,606
Pledged deposits	22	85,000	214,300
Cash and cash equivalents	22	504,884	456,902
Total current assets		1,490,663	1,621,319
CURRENT LIABILITIES			
Trade and bills payables	23	54,720	83,908
Other payables and accruals	24	85,216	84,767
Interest-bearing bank and other borrowings	25	82,671	190,709
Tax payable		14,292	4,951
Total current liabilities		236,899	364,335
NET CURRENT ASSETS		1,253,764	1,256,984
TOTAL ASSETS LESS CURRENT LIABILITIES		2,880,767	2,929,621
NON-CURRENT LIABILITIES			
Deferred income		31,136	32,605
Deferred tax liabilities	26	35,365	48,597
Total non-current liabilities		66,501	81,202
Net assets		2,814,266	2,848,419

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*27*	**27,842**	28,060
Reserves	*29*	**2,773,738**	2,799,360
		2,801,580	2,827,420
Non-controlling interests		**12,686**	20,999
Total equity		**2,814,266**	2,848,419

Ms. Zhou Yaxian
Director

Mr. Ru Xiquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company											
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000 (note 29(iv))	Contributed surplus RMB'000 (note 29(i))	Reserve funds RMB'000 (note 29(ii))	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note 29(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	28,060	393,120	–	59	369,723	4,758	(107,852)	(264,343)	2,400,172	2,823,697	71,579	2,895,276
Profit for the year	–	–	–	–	–	–	–	–	68,794	68,794	(12,428)	56,366
Other comprehensive income for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	2,514	–	–	2,514	–	2,514
Total comprehensive income for the year	–	–	–	–	–	–	2,514	–	68,794	71,308	(12,428)	58,880
Capital contribution to a subsidiary	–	–	–	–	–	–	–	–	–	–	802	802
Acquisition of non-controlling interests	–	–	–	–	–	18,744	–	–	–	18,744	(38,954)	(20,210)
Final 2016 dividend and special dividend	–	(86,329)	–	–	–	–	–	–	–	(86,329)	–	(86,329)
At 31 December 2017	28,060	306,791*	–*	59*	369,723*	23,502*	(105,338)*	(264,343)*	2,468,966*	2,827,420	20,999	2,848,419

Year ended 31 December 2018

		Attributable to owners of the Company											
	Note	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000 (note 29(iv))	Contributed surplus RMB'000 (note 29(i))	Reserve funds RMB'000 (note 29(ii))	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note 29(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018		28,060	306,791	-	59	369,723	23,502	(105,338)	(264,343)	2,468,966	2,827,420	20,999	2,848,419
Profit for the year		-	-	-	-	-	-	-	-	80,259	80,259	(9,075)	71,184
Other comprehensive income for the year:													
Exchange differences related to foreign operations		-	-	-	-	-	-	(886)	-	-	(886)	-	(886)
Total comprehensive income for the year		-	-	-	-	-	-	(886)	-	80,259	79,373	(9,075)	70,298
Capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	762	762
Share repurchase	29(iv)	-	-	(9,494)	-	-	-	-	-	-	(9,494)	-	(9,494)
Cancellation of shares repurchased	29(iv)	(218)	(8,868)	9,086	-	-	-	-	-	-	-	-	-
Final 2017 dividend and special dividend		-	(95,719)	-	-	-	-	-	-	-	(95,719)	-	(95,719)
Transfer from retained profit		-	-	-	-	3,428	-	-	-	(3,428)	-	-	-
At 31 December 2018		27,842	202,204*	(408)*	59*	373,151*	23,502*	(106,224)*	(264,343)*	2,545,797*	2,801,580	12,686	2,814,266

* *These reserve accounts comprise the consolidated reserves of RMB2,773,738,000 (2017: RMB2,799,360,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**96,091**	65,331
Adjustments for:			
Interest on bank and other bank borrowings	7	**3,545**	11,170
Share of loss/(profit) of an associate		**7,430**	(102)
Bank interest income	5	**(15,568)**	(17,866)
Fair value gain on a financial asset at fair value through profit or loss	5	**–**	(1,594)
Gain on disposal of financial assets at fair value through profit or loss	5	**(7,414)**	(3,566)
Loss on disposal of items of property, plant and equipment, net	6	**11,291**	265
Depreciation	6	**94,469**	97,157
Changes in fair value of investment properties	5	**(205)**	(252)
Amortisation of prepaid land lease payments	6	**3,220**	3,139
Amortisation of other intangible assets	6	**51,705**	51,705
Impairment of goodwill	6	**22,760**	–
Impairment of an investment in an associate	6	**13,607**	–
Government grants released		**(8,286)**	(12,286)
Write-off of inventories	6	**7,457**	10,095
Provision against obsolete and slow-moving inventories	6	**7,620**	2,504
		287,722	205,700
(Increase)/decrease in inventories		**(47,263)**	207,648
Decrease/(increase) in trade and bills receivables		**57,750**	(79,466)
Decrease in prepayments, deposits and other receivables and other assets		**4,765**	1,597
(Decrease)/increase in trade and bills payables		**(29,188)**	18,609
(Decrease)/increase in other payables and accruals		**(3,616)**	11,004
Receipt of government grants		**6,817**	13,451
Cash generated from operations		**276,987**	378,543
Interest received		**32,343**	50,650
Hong Kong profits tax paid		**(805)**	(1,549)
PRC corporate income tax paid		**(26,416)**	(5,195)
Net cash flows from operating activities		**282,109**	422,449

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(23,223)	(29,957)
Investment in an associate	18(a)	–	(31,224)
Net changes to financial assets at fair value through profit or loss		7,414	3,566
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(322,883)	(80,000)
Decrease in pledged deposits		129,300	241,700
Net cash flows (used in)/from investing activities		(209,392)	104,085
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		60,000	140,000
Repayment of bank loans and other borrowings		(170,000)	(290,000)
Interest paid		(4,370)	(11,207)
Share repurchase	29(iv)	(9,494)	–
Capital contribution by a non-controlling shareholder		762	802
Acquisition of non-controlling interests		–	(20,540)
Dividends paid		(95,719)	(86,329)
Net cash flows used in financing activities		(218,821)	(267,274)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(146,104)	259,260
Cash and cash equivalents at beginning of year		376,902	119,016
Effect of foreign exchange rate changes, net		1,203	(1,374)
CASH AND CASH EQUIVALENTS AT END OF YEAR		232,001	376,902
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	172,001	356,902
Non-pledged time deposits with original maturity of less than three months when acquired		60,000	20,000
Cash and cash equivalents as stated in the consolidated statement of cash flows		232,001	376,902
Non-pledged time deposits with original maturity of over three months when acquired		402,883	80,000
		634,884	456,902
Less: Non-pledged time deposits classified as non-current		(130,000)	–
Cash and cash equivalents as stated in the consolidated statement of financial position	22	504,884	456,902

1. Corporate and Group 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 registered address of the Company is P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is located at Unit 2902, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 13 October 2009.

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

In the opinion of the directors, the immediate holding company of the Company is Rich Top Future Limited, which was incorporated in the British Virgin Islands ("BVI"), and the ultimate holding company of the Company is Shenguan Biology Science & Technology Investment Company Limited, a Hong Kong incorporated company.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Forever Gather Limited	Hong Kong	HK$1	–	100%	Sale of collagen sausage casing
梧州神冠蛋白腸衣有限公司 ("Wuzhou Shenguan Protein Casing Co., Ltd.") ("Wuzhou Shenguan")*/^	The People's Republic of China (the "PRC")/ Mainland China	RMB460,000,000	–	100%	Manufacture and sale of collagen sausage casing
梧州市神生膠原製品有限公司 ("Wuzhou Shensheng Collagen Products Co., Ltd.") ("Wuzhou Shensheng")**/^	PRC/Mainland China	RMB200,000,000	–	100%	Manufacture and sale of collagen and collagen sausage casing
廣東勝馳生物科技有限公司 ("Guangdong Victory Biological Company Limited") ("Guangdong Victory")*/^	PRC/Mainland China	US$4,100,000	–	80%	Manufacture and sale of bioactive collagen products

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
廣西梧州三箭制葯有限公司 ("Wuzhou Sanjian Pharmaceutical Co., Ltd") ("Sanjian Pharmaceutical")**/^	PRC/Mainland China	RMB25,000,000	–	100%	Manufacture and sale of pharmaceutical products
Singapore Shenguan Pte. Ltd.	Singapore	S$18,189,000	–	100%	Manufacture of pharmaceutical intermediates and fine chemicals for human use

* *These entities are registered as Sino-foreign joint ventures under PRC law.*

** *These entities are registered as domestic limited liability companies under PRC law.*

^ *The English names of these entities represent the best effort made by management of the Company to directly translate the Chinese names of these entities as no official English names have been registered.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 Basis of Presentation

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

2.1 Basis of Presentation (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Groups financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

2.2 Changes in Accounting Policies and Disclosures (Continued)

(b) HKFRS 9 Financial Instruments replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied HKFRS 9 retrospectively in accordance with the transition requirements, with the initial application date of 1 January 2018. The Group has elected not to adjust the comparative information for the period beginning 1 January 2018, which the comparative information was prepared under classification and measurement requirements of HKAS 39. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

On 1 January 2018, the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into appropriate HKFRS 9 categories. The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows:

	Measurement category		Carrying amount		
	Original (HKAS 39)	New (HKFRS 9)	Original *RMB'000*	New *RMB'000*	Difference *RMB'000*
Current financial assets					
Trade and bills receivables	Loans and receivables	Amortised cost	293,913	293,913	–
Financial assets included in prepayments, other receivables and other assets	Loans and receivables	Amortised cost	61,201	61,201	–
Pledged deposits	Loans and receivables	Amortised cost	214,300	214,300	–
Cash and cash equivalents	Loans and receivables	Amortised cost	456,902	456,902	–
Current financial liabilities					
Trade and bills payables	Amortised cost	Amortised cost	83,908	83,908	–
Other payables	Amortised cost	Amortised cost	84,767	84,767	–
Interest-bearing bank and other borrowings	Amortised cost	Amortised cost	190,709	190,709	–

2.2 Changes in Accounting Policies and Disclosures (Continued)

(b) (Continued)

Impairment

HKFRS 9 requires an impairment on trade and bills receivables, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. Further details on the Group's accounting policy for impairment of financial assets are disclosed in note 2.4 to the financial statements. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group's principal activities consist of the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, food products, skin care and health care products and bioactive collagen products (the "Group Products"). The Group's contracts with customers for the sale of the Group Products generally include one performance obligation. The Group has concluded that revenue from sale of the Group Products should be recognised at the point in time when control of the asset is transferred to the customer. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

Prior to the adoption of HKFRS 15, the Group recognised revenue from the sale of goods measured at fair value of the consideration received or receivable, net of allowances, trade discounts and/or volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty was resolved.

Under HKFRS 15, a transaction price is considered variable if a customer is provided with trade discounts or right of return. The Group estimates the amount of consideration to which it will be entitled in exchange for transferring the Group Products. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

2.2 Changes in Accounting Policies and Disclosures (Continued)

(c) (Continued)

The Group has assessed that the adoption of HKFRS 15 did not materially affect how the Group recognised revenue and cost of sales under HKAS 18 when the customers have a right to allowance, trade discounts and volume rebates.

Consideration received from customers in advance

Generally, the Group receives short-term advances from its customers. Using the practical expedient in HKFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as advances from customers as included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB5,439,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB4,964,000 was reclassified from advances from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of the Group Products.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

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 expects to adopt the amendments prospectively from 1 January 2020.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed an assessment on the impact of adoption of HKFRS 16.

As disclosed in note 34(b) to the financial statements at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB1,876,000 (2017: RMB5,138,000) for office and production premises, certain amounts included therein may need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

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. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of applications an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 Summary of Significant Accounting Policies

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in the associate.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 Summary of Significant Accounting Policies (Continued)

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, (only if there are revalued assets in the financial statements) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 Summary of Significant Accounting Policies (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost (or valuation) less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Annual depreciation rate	**Residual value**
Freehold Land	Not depreciated	N/A
Buildings	3% to 11%	3% to 10%
Plant and machinery	6.4% to 19%	3% to 10%
Motor vehicles	7.5% to 33%	3% to 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The Group's intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation of trademarks and technology knowhow is calculated using the straight-line method to allocate the cost over their estimated useful lives as follows:

Trademarks	5 years
Technology knowhow	5 years

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for ''Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (''SPPI") on the principal amount outstanding.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payable, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals and interest-bearing bank borrowings.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of goods.

(b) Service income

Service income is recognised over the schedule period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services have been rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, when appropriate, to the net carrying amount of the financial asset; and

(d) rental income, on a time proportion basis over the lease terms.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilution effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 Summary of Significant Accounting Policies (Continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

As stipulated by the rules and regulations of the PRC, the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The costs of employee retirement benefits are recognised as cost of sales and administrative expenses in profit or loss in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

The functional currency of the Company is the Hong Kong dollar while the presentation currency of the Company for the financial statements is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain group companies are currencies other than the presentation currency of the Company. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a operation with functional currency other than RMB, the component of other comprehensive income relating to that particular operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of certain group companies with functional currency other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these group companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forward-looking information. The Group's historical credit loss experience and forward-looking estimates may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

The ECL for financial assets included in prepayment, deposit and other assets are based on assumptions about probability of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the ECL calculations, based on the Group's historical loss record, current conditions as well as forward-looking information.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which the estimate has been changed.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Income tax

The Group is subject to income taxes in the PRC and Hong Kong. As a result of the fact that certain matters relating to income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

Withholding taxes

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2018, the Group had unremitted earnings that were subject to withholding taxes amounted to approximately RMB2,225,892,000 (2017: RMB2,137,554,000). In the opinion of the directors, the Company is able to control the timing of the reversal of the temporary difference and it is not probable that these subsidiaries established in Mainland China will distribute such earnings in the foreseeable future. Accordingly, no deferred tax has been recognised for withholding taxes that would be payable on distribution of unremitted earnings by the Group's subsidiaries established in Mainland China in respect of earnings generated.

4. Operating Segment Information

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

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

Information about geographical areas

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

4. Operating Segment Information (Continued)

Information about major customers

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

	2018 RMB'000	2017 RMB'000
Customer 1	211,968	268,371
Customer 2	122,925	121,087

5. Revenue, Other Income and Gains, Net

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

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Goods transferred at point in time	898,768	1,007,720
Service transferred over time	248	271
	899,016	1,007,991

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	5,439

5. Revenue, Other Income and Gains, Net (Continued)

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied when the control of the goods is transferred, generally on delivery of goods and payment is generally due within 30 days from delivery, except for new customers, where payment in advance is normally required.

Service income

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of service, except for new customers, where payment in advance is normally required.

No transaction prices were allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) as at 31 December 2018.

	2018 *RMB'000*	2017 *RMB'000*
Other income		
Bank interest income	15,568	17,866
Sale of dried meat products	586	530
Government grants*	8,286	9,842
Others	1,031	1,292
	25,471	29,530
Gains		
Foreign exchange gain, net	3,746	–
Gain on disposal of financial assets at fair value through profit or loss	7,414	3,566
Change in fair value of a financial asset at fair value through profit or loss	–	1,594
Fair value gains on investment properties	205	252
	11,365	5,412
Total other income and gains	36,836	34,942

* *Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land leases, and plant and equipment. The government grants received relating to assets were recognised as deferred income when conditions of these government grants were fulfilled, and released to other income over the expected useful lives of the relevant assets. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2018 (2017: Nil).*

6. Profit Before Tax

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

	Notes	2018 RMB'000	2017 RMB'000
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**151,936**	179,125
Retirement benefit contributions		**24,371**	27,411
		176,307	206,536
Auditor's remuneration		**2,098**	2,200
Cost of inventories sold**		**487,295**	662,034
Depreciation	*13*	**94,469**	97,157
Amortisation of prepaid land lease payments	*15*	**3,220**	3,139
Impairment of goodwill*	*16*	**22,760**	–
Amortisation of other intangible assets*	*17*	**51,705**	51,705
Impairment of an investment in an associate*	*18*	**13,607**	–
Minimum lease payments under operating leases		**3,771**	2,941
Loss on disposal of items of property, plant and equipment, net*	*13*	**11,291**	265
Impairment of trade receivables, net*	*20*	**187**	4,060
Write-off of inventories**		**7,457**	10,095
Provision against obsolete and slow-moving inventories**		**7,620**	2,504
Foreign exchange differences, net		**(3,746)**	660
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**11**	10

* *The above items are included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.*

** *The above items are included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.*

7. Finance Costs, Net

	2018 RMB'000	2017 RMB'000
Interest on bank loans	**3,545**	11,170
Less: Government grants*	**–**	(2,444)
	3,545	8,726

* *Various government grants have been received in respect of interest expenses incurred for the purchase of certain raw materials in 2017. The government grants received were deducted against related interest expenses when the conditions of the government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2017.*

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2018 RMB'000	2017 RMB'000
Fees	**898**	918
Other emoluments:		
Salaries, allowances and benefits in kind	**6,615**	6,612
Discretionary performance-related bonuses*	**1,627**	1,550
Retirement benefit contributions	**75**	75
	8,317	8,237
	9,215	9,155

* *Executive directors of the Company are entitled to bonus payments which are determined as a percentage of the adjusted profit before tax of Wuzhou Shenguan and its subsidiaries.*

8. Directors' Remuneration (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 RMB'000	2017 RMB'000
Mr. Tsui Yung Kwok	**186**	191
Mr. Meng Qinguo	**186**	191
Mr. Yang Xiaohu	**186**	191
	558	573

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance-related bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2018					
Executive directors:					
Ms. Zhou Yaxian	68	3,000	739	–	3,807
Mr. Shi Guicheng	68	1,205	296	25	1,594
Mr. Ru Xiquan	68	1,205	296	25	1,594
Mr. Mo Yunxi	68	1,205	296	25	1,594
	272	6,615	1,627	75	8,589
Non-executive director:					
Dato' Sri Low Jee Keong	68	–	–	–	68
	340	6,615	1,627	75	8,657

8. Directors' Remuneration (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance-related bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors:					
Ms. Zhou Yaxian	69	3,000	704	–	3,773
Mr. Shi Guicheng	69	1,204	282	25	1,580
Mr. Ru Xiquan	69	1,204	282	25	1,580
Mr. Mo Yunxi	69	1,204	282	25	1,580
	276	6,612	1,550	75	8,513
Non-executive director:					
Dato' Sri Low Jee Keong	69	–	–	–	69
	345	6,612	1,550	75	8,582

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included four directors (2017: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2017: one) highest paid employee who is neither a director nor chief executive of the Company is as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	1,264	1,264
Discretionary performance related bonuses	296	282
Retirement benefit contributions	25	25
	1,585	1,571

The non-director and non-chief executive highest paid employee's remuneration fell within the band of HK$1,500,001 to HK$2,000,000.

10. 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.

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

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

	2018 RMB'000	2017 RMB'000
Current – PRC	35,400	6,243
Current – Hong Kong		
Charge for the year	1,167	1,498
Deferred tax *(note 26)*	(11,660)	1,224
Total tax charge for the year	24,907	8,965

10. Income Tax (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates of the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

2018

	Mainland China		Hong Kong		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit before tax	**82,037**		**14,054**		**96,091**	
Tax at the statutory tax rates	**20,497**	**25.0**	**2,320**	**16.5**	**22,817**	**23.7**
Lower tax rate for specific province or enacted by local authority	**(16,296)**		**–**		**(16,296)**	
Loss attributable to an associate	**1,115**		**–**		**1,115**	
Expenses not deductible for tax	**12,251**		**668**		**12,919**	
Income not subject to tax	**(1,997)**		**(2,796)**		**(4,793)**	
Tax losses not recognised	**8,372**		**773**		**9,145**	
Tax charge at the Group's effective rate	**23,942**	**29.2**	**965**	**6.9**	**24,907**	**25.9**

2017

	Mainland China		Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	53,601		11,730		65,331	
Tax at the statutory tax rates	13,400	25.0	1,936	16.5	15,336	23.5
Lower tax rate for specific province or enacted by local authority	(13,436)		–		(13,436)	
Profit attributable to an associate	(15)		–		(15)	
Expenses not deductible for tax	1,402		604		2,006	
Income not subject to tax	(1,447)		(1,638)		(3,085)	
Tax losses not recognised	7,563		596		8,159	
Tax charge at the Group's effective rate	7,467	13.9	1,498	12.8	8,965	13.7

11. Dividends

	2018 RMB'000	2017 RMB'000
Final dividend proposed subsequent to the reporting period – HK2.0 cents (2017: HK2.0 cents) per ordinary share	**55,271**	52,625
Final special dividend proposed subsequent to the reporting period – HK1.6 cents (2017: HK1.6 cents) per ordinary share	**44,217**	42,100
	99,488	94,725

The final dividend and special dividend for the year ended 31 December 2018 proposed subsequent to the reporting period have not been recognised as a liability at the end of the reporting period and are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings Per Share Attributable to Owner 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 RMB80,259,000 (2017: RMB68,794,000) and the weighted average number of 3,254,294,000 ordinary shares (2017: 3,259,276,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

13. Property, Plant and Equipment

	Freehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and 1 January 2018:						
Cost	71,866	613,223	1,042,903	19,860	130,887	1,878,739
Accumulated depreciation	–	(121,434)	(471,166)	(12,652)	–	(605,252)
Net carrying amount	71,866	491,789	571,737	7,208	130,887	1,273,487
At 1 January 2018, net of accumulated depreciation	71,866	491,789	571,737	7,208	130,887	1,273,487
Additions	–	968	8,237	514	15,037	24,756
Disposals	–	(2,101)	(8,832)	(358)	–	(11,291)
Depreciation provided during the year	–	(20,252)	(72,158)	(2,059)	–	(94,469)
Transfers	–	–	9,730	–	(9,730)	–
Exchange realignment	1,745	301	18	54	192	2,310
At 31 December 2018, net of accumulated depreciation	73,611	470,705	508,732	5,359	136,386	1,194,793
At 31 December 2018:						
Cost	73,611	613,588	1,039,939	17,524	136,386	1,881,048
Accumulated depreciation	–	(142,883)	(531,207)	(12,165)	–	(686,255)
Net carrying amount	73,611	470,705	508,732	5,359	136,386	1,194,793

13. Property, Plant and Equipment (Continued)

	Freehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017						
At 1 January 2017:						
Cost	70,681	603,637	1,029,727	19,390	137,592	1,861,027
Accumulated depreciation	–	(101,486)	(397,242)	(10,954)	–	(509,682)
Net carrying amount	70,681	502,151	632,485	8,436	137,592	1,351,345
At 1 January 2017, net of accumulated depreciation	70,681	502,151	632,485	8,436	137,592	1,351,345
Additions	–	5,865	8,188	1,448	2,794	18,295
Disposals	–	(23)	(40)	(202)	–	(265)
Depreciation provided during the year	–	(20,761)	(74,018)	(2,378)	–	(97,157)
Transfers	–	4,377	5,122	–	(9,499)	–
Exchange realignment	1,185	180	–	(96)	–	1,269
At 31 December 2017, net of accumulated depreciation	71,866	491,789	571,737	7,208	130,887	1,273,487
At 31 December 2017:						
Cost	71,866	613,223	1,042,903	19,860	130,887	1,878,739
Accumulated depreciation	–	(121,434)	(471,166)	(12,652)	–	(605,252)
Net carrying amount	71,866	491,789	571,737	7,208	130,887	1,273,487

14. Investment Properties

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**7,594**	7,342
Net gain from a fair value adjustment	**205**	252
Carrying amount at 31 December	**7,799**	7,594

The Group's investment properties consist of three commercial properties in Wuzhou, Guangxi Province, the PRC. The Group's investment properties were revalued on 31 December 2018 based on valuations performed by 廣西桂鑫誠資產評估有限公司 (Guangxi Guixincheng Asset Valuation Services Limited), independent professionally qualified valuers, at RMB7,799,000 (2017: RMB7,594,000). Each year, the Company's directors decide to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company's directors have discussions once a year with the valuers on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

The investment properties are leased to a third party under operating leases, further summary details of which are included in note 34(a) to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for commercial properties				
As at 31 December 2018	**–**	**–**	**7,799**	**7,799**
As at 31 December 2017	–	–	7,594	7,594

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

14. Investment Properties (Continued)

Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	RMB'000
Carrying amount at 1 January 2017	7,342
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	252
Carrying amount at 31 December 2017 and 1 January 2018	**7,594**
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**205**
Carrying amount at 31 December 2018	**7,799**

Below is a summary of the valuation technique used and the key input to the valuation of investment properties:

	Valuation technique	Significant observable inputs	Value/rate 2018	Value/rate 2017
Commercial properties	Discount cash flow method	Estimated rental value (per sq.m per month)	**RMB155**	RMB150
		Discount rate	**8%**	8%

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated at gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase (decrease) in the estimated rental value in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate.

15. Prepaid Land Lease Payments

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**128,433**	121,847
Additions	**–**	9,725
Recognised during the year *(note 6)*	**(3,220)**	(3,139)
Carrying amount at 31 December	**125,213**	128,433
Current portion included in prepayments, other receivables and other assets	**(3,203)**	(3,203)
Non-current portion	**122,010**	125,230

16. Goodwill

	2018 RMB'000	2017 RMB'000
At 1 January:		
Cost	**49,290**	49,290
Accumulated impairment	**(26,530)**	(26,530)
Net carrying amount	**22,760**	22,760
Net carrying amount at 1 January	**22,760**	22,760
Impairment during the year *(note 6)*	**(22,760)**	–
At 31 December	**–**	22,760
At 31 December:		
Cost	**47,486**	49,290
Accumulated impairment	**(47,486)**	(26,530)
Net carrying amount	**–**	22,760

16. Goodwill (Continued)

Impairment test of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Skin care and health care products cash-generating unit; and
- Bioactive collagen products cash-generating unit.

Skin care and health care products cash-generating unit

The recoverable amount of the skin care and health care products cash-generating unit had been determined based on a value in use calculation. Management had, in prior years, assessed the recoverable amount of this CGU and fully impaired the goodwill amounting to RMB1,804,000.

Bioactive collagen products cash-generating unit

The recoverable amount of the bioactive collagen products cash-generating unit has been determined based on a value in use calculation using pre-tax cash flow based on financial budgets covering an eight-year period approved by senior management which is extrapolated using declining growth rates from fifth to eighth (2017: sixth to eighth) years and adopted a terminal growth rate of 2.2% (2017: 2.7%) beyond the eighth year. Management believes that this forecast period is justified due to the long-term nature of the sale of bioactive collagen products business. The pre-tax discount rate applied to cash flow projections is 27.3% (2017: 27.3%).

Assumptions were used in the value in use calculations of the bioactive collagen products cash-generating unit for the years ended 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Sales growth rates – The sales growth rates on certain product types are based on expected market share after obtaining the production permits of certain medicinal products and management experience in the industry.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the management's expectations for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

During the year ended 31 December 2018, an impairment loss of RMB22,760,000 has been provided in relation to the bioactive collagen products cash-generating unit as the recoverable amount of this cash-generating unit was reduced to RMB67,368,000 at the end of the reporting period. The impairment loss arose as a result of the less than satisfactory past and expected performance of the bioactive collagen products cash-generating unit.

The determination of the recoverable amount of the bioactive collagen products cash-generating unit was particularly sensitive to changes in the following key assumptions for the year ended 31 December 2018:

– An increase of 4.0% in the discount rate adopted would result in the reduction of the recoverable amount of (i.e. additional impairment loss of) RMB19,000,000.

– A reduction of 5.1% in the annual growth rates would result in the reduction of the recoverable amount of (i.e. additional impairment loss of) RMB19,000,000.

17. Other Intangible Assets

	Trademarks *RMB'000*	Technology knowhow *RMB'000*	Total *RMB'000*
31 December 2018			
At 31 December 2017 and 1 January 2018:			
Cost	4,542	253,986	258,528
Accumulated amortisation	(2,496)	(116,518)	(119,014)
Net carrying amount	2,046	137,468	139,514
At 1 January 2018, net of accumulated amortisation	2,046	137,468	139,514
Amortisation provided during the year *(note 6)*	(908)	(50,797)	(51,705)
At 31 December 2018	1,138	86,671	87,809
At 31 December 2018:			
Cost	4,542	253,986	258,528
Accumulated amortisation	(3,404)	(167,315)	(170,719)
Net carrying amount	1,138	86,671	87,809
31 December 2017			
At 1 January 2017:			
Cost	4,542	253,986	258,528
Accumulated amortisation	(1,588)	(65,721)	(67,309)
Net carrying amount	2,954	188,265	191,219
At 1 January 2017, net of accumulated amortisation	2,954	188,265	191,219
Amortisation provided during the year *(note 6)*	(908)	(50,797)	(51,705)
At 31 December 2017	2,046	137,468	139,514
At 31 December 2017:			
Cost	4,542	253,986	258,528
Accumulated amortisation	(2,496)	(116,518)	(119,014)
Net carrying amount	2,046	137,468	139,514

18. Investment in an Associate

	2018 RMB'000	2017 RMB'000
Share of net assets	**32,967**	40,397
Goodwill on acquisition	**28,029**	28,029
	60,996	68,426
Provision for impairment	**(13,607)**	–
	47,389	68,426

(a) Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ operations	Percentage of ownership interest attributable to the Group 2018	2017	Principal activities
Ferguson (Wuhan) Biotech Company Limited ("Ferguson")	Ordinary shares	PRC/Mainland China	**25%**	25%	Manufacture and sale of health care products

On 13 March 2017, the Group entered into an equity transfer agreement ("Ferguson Equity Transfer Agreement") with Guangxi Shenguan Investment Limited ("Guangxi Shenguan"), a company controlled by Ms. Zhou Yaxian, a controlling shareholder of the Company, pursuant to which Guangxi Shenguan agreed to dispose of and the Group agreed to acquire 5% equity interest of Ferguson at a consideration of RMB13,380,000.

On the same date, the Group entered into a capital increase agreement ("Ferguson Capital Increase Agreement") with Guangxi Shenguan, Gobitech Limited, an independent third party, and Guangxi Guan Yu Zhiye Limited, a company controlled by Ms. Zhou Yaxian, pursuant to which the Group agreed to make a capital contribution of RMB17,844,000 to Ferguson by cash.

Upon completion of the above transactions on 8 August 2017, the equity interest attributable to the Group in Ferguson increased from 15% to 25%.

The Group's shareholding in Ferguson is held through a wholly-owned subsidiary of the Company.

18. Investments in an Associate (Continued)

(b) Since 8 August 2017, the date of Ferguson becoming an associate of the Group, Ferguson is considered a material associate of the Group and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Ferguson adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 *RMB'000*	2017 *RMB'000*
Current assets	**94,702**	93,792
Non-current assets, excluding goodwill	**129,411**	143,649
Goodwill on acquisition of the associate	**57,688**	112,115
Current liabilities	**(88,485)**	(67,609)
Non-current liabilities	**(3,760)**	(8,245)
Net assets	**189,556**	273,702
Net assets, excluding goodwill	**131,868**	161,587
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**25%**	25%
Group's share of net assets of the associate, excluding goodwill	**32,967**	40,397
Goodwill on acquisition (less cumulative impairment)	**14,422**	28,029
Carrying amount of the investment	**47,389**	68,426
Revenue for the year/period	**88,409**	47,939*
(Loss)/profit for the year/period	**(29,720)**	408*
Total comprehensive (loss)/income for the year/period	**(29,720)**	408*

* *These amounts were generated after becoming an associate of the Group.*

18. Investments in an Associate (Continued)

(c) Impairment testing of investment in an associate

The recoverable amount of the investment has been determined based on its fair value less costs of disposal estimated using the income approach. The fair value measurement is categorised as Level 3. The recoverable amount was determined based on financial budgets covering a five-year period approved by senior management and adopted a terminal growth rate of 2.5% beyond the fifth year. The pre-tax discount rate applied to cash flow projections is 18.1%.

Assumptions were used in the estimation of fair value less costs of disposal of the associate for the year ended 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

Sales growth rates and budgeted gross margins – Based on expected market development and management experience in the industry.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the associate.

During the year ended 31 December 2018, an impairment loss of RMB13,607,000 has been provided as the recoverable amount of the investment was less than the carrying amount of the investment. The impairment loss arose as a result of the less than satisfactory past and expected performance of the associate.

19. Inventories

	2018 **RMB'000**	2017 RMB'000
Raw materials	**49,809**	43,961
Work in progress	**215,368**	273,678
Finished goods	**341,607**	256,959
	606,784	574,598

20. Trade and Bills Receivables

	2018 *RMB'000*	2017 *RMB'000*
Trade receivables	**209,009**	228,689
Due from a related company	**792**	–
	209,801	228,689
Bills receivable	**52,967**	91,217
	262,768	319,906
Impairment	**(26,180)**	(25,993)
	236,588	293,913

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. The Group seeks to maintain strict control over its outstanding receivables and has a credit policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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:

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	**180,033**	239,776
3 to 4 months	**34,388**	24,515
Over 4 months	**22,167**	29,622
	236,588	293,913

20. Trade and Bills Receivables (Continued)

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 *RMB'000*	2017 *RMB'000*
At 1 January	25,993	29,932
Impairment losses, net *(note 6)*	187	(3,939)
At 31 December	26,180	25,993

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due				
	Current	Less than 1 month	1 to 2 months	2 to 4 months	Over 4 months	Total
Expected credit loss rate (%)	1.8	1.0	3.6	12.6	77.4	12.5
Gross carrying amount (RMB'000)	140,874	21,970	15,586	2,236	29,135	209,801
Expected credit loss (RMB'000)	2,577	218	566	281	22,538	26,180

The financial impact of expected credit losses for bills receivable under HKFRS 9 is insignificant for the year ended 31 December 2018.

20. Trade and Bills Receivables (Continued)

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade and bills receivables of RMB25,993,000 with a carrying amount before provision of RMB27,357,000.

The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 *RMB'000*
Neither past due nor impaired	254,115
Less than 1 month past due	15,014
1 to 2 months past due	9,760
2 to 4 months past due	13,660
	292,549

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

20. Trade and Bills Receivables (Continued)

Impairment under HKAS 39 for the year ended 31 December 2017 (Continued)

Due from a related company:

	At 31 December 2018 *RMB'000*	Maximum amount outstanding during 2018 *RMB'000*	At 31 December 2017 and 1 January 2018 *RMB'000*	Maximum amount outstanding during 2017 *RMB'000*	At 1 January 2017 *RMB'000*
LJK Frozen SDN. BHD. ("LJK") *(note)*	**792**	**1,568**	**–**	2,730	2,730

Note: LJK is controlled by Dato' Sri Low Jee Keong, a director of the Company. The amount due from LJK is unsecured, non-interest-bearing and has a repayment term of 45 days, which is on terms similar to those offered to other major customers of the Group.

21. Prepayments, Other Receivables and Other Assets

	2018 *RMB'000*	2017 *RMB'000*
Prepayments	**30,078**	27,314
Deposits and other receivables	**37,393**	61,201
	67,471	88,515
Less: Current portion	**(57,407)**	(81,606)
Non-current portion	**10,064**	6,909

Where applicable, an impairment analysis is performed on deposits and other receivables at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit rating can be identified, expected credit losses are estimated by a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forward-looking information, as appropriate. As at 31 December 2018, the Group has concluded that the probability of default and loss rate are low and the financial impact of expected credit losses for deposits and other receivables under HFKRS 9 is insignificant for the year ended 31 December 2018.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. Cash and Cash Equivalents and Pledged Deposits

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**172,001**	356,902
Time deposits	**547,883**	314,300
	719,884	671,202
Less: Pledged time deposits for		
– Short term bank loans and borrowings *(note 25(b))*	**(85,000)**	(210,000)
– Bills payable *(note 23)*	**–**	(4,300)
Less: Non-current time deposits	**(130,000)**	–
Cash and cash equivalents	**504,884**	456,902

At the end of the reporting period, the cash and bank balances (including time deposits) of the Group denominated in RMB amounted to RMB686,221,000 (2017: RMB639,743,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

23. 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:

	2018 RMB'000	2017 RMB'000
Within 1 month	**26,579**	26,327
1 to 2 months	**4,821**	4,977
2 to 3 months	**5,571**	13,116
Over 3 months	**17,749**	39,488
	54,720	83,908

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

As at 31 December 2018, trade payables amounting to RMB12,864,000 (2017: RMB5,379,000) are payable to Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan") for the purpose of purchasing cattle hides. Guangxi Zhiguan is controlled by Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, directors of the Company. The trade and bills payables to Guangxi Zhiguan are settled on terms no longer than 180 days.

As at 31 December 2017, certain bills payable amounting to RMB33,000,000 were secured by pledged deposits with a carrying amount of RMB4,300,000.

24. Other Payables and Accruals

	Notes	2018 RMB'000	2017 RMB'000
Advances from customers		–	5,439
Contract liabilities	(a)	4,964	–
Accruals		19,580	15,532
Other payables	(b)	60,672	63,796
		85,216	84,767

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers for the sale of goods	4,964	5,439

Contract liabilities include short-term advances received from customers to deliver goods. The decrease in contract liabilities in 2018 was mainly due to the decrease in short-term advances received from customers in relation to the sale of edible collagen sausage casing at the end of the year.

(b) Other payables are non-trade, unsecured and non-interest-bearing and are normally settled on terms of 60 days.

25. Interest-Bearing Bank and Other Borrowings

	2018			2017		
	Effective interest rate (%)	Maturity	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loan – secured	**HIBOR + 0.6**	**On demand**	**42,671**	HIBOR + 0.9	On demand	40,709
Bank loan – secured	**–**	**–**	**–**	4.75	On demand	90,000
Discounted bills with recourse	**3.75 – 4.75**	**2019**	**40,000**	3.30 – 3.70	2018	60,000
			82,671			190,709

	2018 *RMB'000*	2017 *RMB'000*
Analysed into:		
Within one year or on demand	**82,671**	190,709

Notes:

(a) Except for the secured bank borrowing amounting to RMB42,671,000 (2017: RMB40,709,000) which was denominated in HK$, all of the Group's bank borrowings were denominated in RMB as at 31 December 2018.

(b) As at 31 December 2018, time deposits of RMB85,000,000 (2017: RMB210,000,000) were pledged to secure bank borrowings of RMB42,671,000 (2017: RMB130,709,000) and discounted bills with recourse of RMB40,000,000 (2017: RMB60,000,000).

(c) As at 31 December 2017, the Group's bank borrowing of RMB90,000,000 was at fixed rate.

(d) As at 31 December 2018, the Group's other borrowings of RMB40,000,000 (2017: RMB60,000,000) were at fixed rates.

26. Deferred Tax

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Deferred government grants *RMB'000*	Depreciation in excess of related depreciation allowance *RMB'000*	Accrued salary *RMB'000*	Impairment loss allowance against trade and other receivables *RMB'000*	Impairment provision against inventories *RMB'000*	Unrealised profits arising from intra-group transactions *RMB'000*	Losses available for offsetting taxable profits *RMB'000*	Total *RMB'000*
At 1 January 2017	4,497	1,217	1,911	6,778	616	27,954	–	42,973
Deferred tax credited/ (charged) to profit or loss during the year *(note 10)*	574	48	681	(670)	374	(17,354)	2,091	(14,256)
At 31 December 2017 and 1 January 2018	5,071	1,265	2,592	6,108	990	10,600	2,091	28,717
Deferred tax credited/ (charged) to profit or loss during the year *(note 10)*	(220)	(765)	19	(19)	1,143	355	(2,091)	(1,578)
At 31 December 2018	4,851	500	2,611	6,089	2,133	10,955	–	27,139

26. Deferred Tax (Continued)

Deferred tax liabilities

	Depreciation in excess of related depreciation allowance RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2017	306	49,243	12,106	61,655
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	5	(13,037)	–	(13,032)
Exchange difference	(26)	–	–	(26)
At 31 December 2017 and 1 January 2018	**285**	**36,206**	**12,106**	**48,597**
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	**(201)**	**(13,037)**	**–**	**(13,238)**
Exchange difference	**6**	**–**	**–**	**6**
At 31 December 2018	**90**	**23,169**	**12,106**	**35,365**

The Group has tax losses arising in Hong Kong of HK$28,589,000 (2017: HK$21,627,000), which was equivalent to RMB24,137,000 (2017: RMB18,737,000) and subject to the confirmation of tax losses from the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

No deterred tax asset has been recognised in respect of tax losses arising in PRC of RMB63,740,000 (2017: RMB30,252,000) due to unpredictability of future profit stream.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB2,225,892,000 (2017: RMB2,137,554,000) at 31 December 2018. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings that are subject to withholding taxes in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. Share Capital

	2018 HK$'000	2017 HK$'000
Authorised: 20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid: 3,234,578,000 (2017: 3,259,276,000) ordinary shares of HK$0.01 each	**32,346**	32,593
Equivalent to RMB'000	**27,842**	28,060

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 HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Equivalent total RMB'000
At 1 January 2017	3,259,276,000	32,593	353,486	28,060	393,120	421,180
Final 2016 dividend and special dividend	–	–	(97,778)	–	(86,329)	(86,329)
At 31 December 2017 and 1 January 2018	**3,259,276,000**	**32,593**	**255,708**	**28,060**	**306,791**	**334,851**
Cancellation of shares repurchased *(note 29(iv))*	**(24,698,000)**	**(247)**	**(10,032)**	**(218)**	**(8,868)**	**(9,086)**
Final 2017 dividend and special dividend	**–**	**–**	**(117,334)**	**–**	**(95,719)**	**(95,719)**
At 31 December 2018	**3,234,578,000**	**32,346**	**128,342**	**27,842**	**202,204**	**230,046**

28. Share Option Scheme

In order to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 19 September 2009 whereby the board of directors (the "Board") is authorised, at its absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants and advisors or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 13 October 2009 and shall be valid and effective for a period of ten years commencing on 19 September 2009, subject to the early termination provisions contained in the Scheme.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the Shares in issue on the Listing Date. The Company may at any time refresh this limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within seven days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Shares as stated in The Stock Exchange's daily quotation sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option provided always that for the purpose of calculating the subscription price, where the Company has been listed on The Stock Exchange for less than five business days, the issue price shall be used as the closing price for any trading day fall within the period before the date of listing of the Company's Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At 31 December 2018 and at the date of approval of these financial statements, the Company had no share options outstanding under the Scheme.

29. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Contributed surplus

The Group's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation in 2009 over the nominal value of the Company's shares issued in exchange therefor.

(ii) Reserve funds

In accordance with the Law of the PRC for Enterprise with Foreign Investments and the articles of association of subsidiaries of the Group established in the PRC, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve funds before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve funds should not be less than 10% of the net profits. When the balance of the reserve funds reaches 50% of the paid-up capital, no further appropriations are required to be made. Upon approval obtained from the board of directors, the reserve funds can be used to offset accumulated deficits or to increase the registered capital.

(iii) Other reserves

Other reserves represent: (1) the aggregate of the difference between consideration paid for acquisition of an equity interest in subsidiaries and the carrying value of non-controlling interests, and the difference arising from deemed disposal of equity interests to non-controlling shareholders; and (2) waiver of amounts due to related parties.

(iv) Treasury shares

During the year ended 31 December 2018, the Company repurchased its own ordinary shares of 25,778,000 on the Stock Exchange at an aggregate consideration of HK$10,724,000 (equivalent to RMB9,460,000), of which 24,698,000 ordinary shares were cancelled by the company as at 31 December 2018. Upon the cancellation of the 24,698,000 shares repurchased, the issued share capital of the Company was reduced by the par value of HK$247,000 (equivalent to RMB218,000) and the premium paid on the repurchase of these cancelled shares of HK$10,032,000 (equivalent to RMB8,868,000), including transaction costs, was deducted from share premium of the Company. At 31 December 2018, 1,080,000 (2017: Nil) ordinary shares were purchased but not yet cancelled by the Company and were included in the "Treasury Shares" in the Company's reserves at the consideration paid (including transaction costs) of HK$484,000 which is equivalent to RMB408,000 (2017: Nil).

30. Partly-Owned Subsidiary with Material Non-Controlling Interests

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests of Guangdong Victory *(note)*	20%	20%

Note:

During the year ended 31 December 2017, the Group has further acquired a 29% equity interest of Guangdong Victory from Enneford Industrial Limited, an independent third party, at a consideration of RMB23,850,000. The Group's interest in Guangdong Victory increased from 51% to 80% upon completion of the transaction. Details of the transaction were set out in the Company's announcement dated 23 March 2017.

	2018 *RMB'000*	2017 *RMB'000*
Loss for the year allocated to non-controlling interests of Guangdong Victory	(8,477)	(12,520)
Dividends paid to non-controlling interests of Guangdong Victory	–	–
Accumulated balances of non-controlling interests at the reporting date of Guangdong Victory	12,588	20,995

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2018 *RMB'000*	2017 *RMB'000*
Revenue	164	122
Total expenses	(42,548)	(42,812)
Loss for the year	(42,384)	(42,690)
Total comprehensive income for the year	(42,384)	(42,690)
Current assets	2,327	2,099
Non-current assets	90,391	139,257
Current liabilities	(4,085)	(1,594)
Non-current liabilities	(21,668)	(34,367)
Net cash flows used in operating activities	(3,539)	(3,646)
Net cash flows used in investing activities	(639)	(110)
Net cash flows from financing activities	3,956	702
Net decrease in cash and cash equivalents	(222)	(3,054)

31. Note to the Consolidated Statement of Cash Flows

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	
	2018 *RMB'000*	2017 *RMB'000*
At 1 January	**190,709**	343,563
New bank and other loans	**60,000**	140,000
Repayment of bank and other loans	**(170,000)**	(290,000)
Foreign exchange movement	**1,962**	(2,854)
At 31 December	**82,671**	190,709

32. Contingent Liabilities

At the end of the reporting period, the Group did not have any significant contingent liabilities.

33. Pledge of Assets

Details of the Group's assets pledged for the Group's interest-bearing bank and other borrowings are included in notes 22 and 25 to the financial statements.

34. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of five years. The terms of the leases generally also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Within one year	**308**	308
In the second to fifth years, inclusive	**461**	743
	769	1,051

(b) As lessee

The Group leases its office and production premises under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years.

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Within one year	**1,786**	3,452
In the second to fifth years, inclusive	**90**	1,686
	1,876	5,138

35. Commitments

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Buildings	104,925	103,417
Plant and machinery	7,510	3,035
	112,435	106,452

36. Related Party Disclosures

(a) In addition to those transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Company controlled by a director of the Company:			
Continuing connected transactions:			
Sales of products	(i)	4,234	2,312
Purchases of cattle hides	(ii)	102,584	53,694
Rent of production premises	(ii)	2,100	2,034
Administrative support and liaising services	(ii)	147	198
Companies controlled by the spouse of a director of the Company:			
Continuing connected transactions:			
Purchases of packing and printing materials	(ii)	31,312	28,180

Notes:

(i) The sales were made according to the prices and conditions offered to major customers of the Group.

(ii) These transactions were based on terms mutually agreed between the parties.

36. Related Party Disclosures (Continued)

(b) Non-recurring transactions with related parties

(i) On 29 September 2017, the Group entered into an exchange of state-owned construction and land use rights agreement with Guangxi Zhiguan, a company controlled by Ms. Zhou Yaxian, pursuant to which the Group agreed to dispose of a parcel of land with a carrying value as at the date of disposal of RMB4,604,000 to Guangxi Zhiguan in exchange for another parcel of land owned by Guangxi Zhiguan within the same area and with the same site area of 26,973.66 square meters. No gain or loss was recorded as a result of the land exchange.

(ii) During the year ended 31 December 2017, the Group acquired an additional 5% equity interest of Ferguson from Guangxi Zhiguan, a company controlled by Ms. Zhou Yaxian at a consideration of RMB13,380,000. Further details are included in note 18(a) to financial statements.

(c) Balances with related parties

Balances with related parties are detailed in notes 20 and 23 to financial statements.

(d) Compensation of key management personnel

	2018 *RMB'000*	2017 *RMB'000*
Fees	**272**	276
Salaries, allowances and benefits in kind	**10,192**	10,218
Discretionary performance-related bonuses	**2,219**	2,114
Retirement benefit contributions	**115**	116
Total compensation paid to key management personnel	**12,798**	12,724

Further details of directors' emoluments are included in note 8 to financial statements.

The related party transactions in respect of items (a) and (b) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. Financial Instruments by Category

All financial assets and liabilities of the Group as at 31 December 2018 were financial assets at amortised cost (2017: loans and receivables), and financial liabilities stated at amortised cost (2017: financial liabilities stated at amortised cost), respectively.

38. Transfer of Financial Assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks of certain issuing banks after the endorsement, and accordingly, the Group continued to recognise the full carrying amounts of the endorsed bills receivable from such issuing banks (the "Endorsed Bills") and the associated trade payables settled. Subsequent to the endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. As at 31 December 2018, the aggregate carrying amounts of the Endorsed Bills were RMB17,026,000 (2017: RMB18,511,000).

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers, which had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of these bills receivable have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). These bills receivable were honoured by reputable banks in the PRC rating at AAA by national credit rating agencies. In the opinion of the directors, these banks have good reputation and credit quality, and the risk of default of these bills receivables (the "Derecognised Bills") on maturity is remote, and therefore, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills since after the transfer the Group's exposure to the variability in the amounts of the net cash flows of the transferred asset is not significant. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant. As at 31 December 2018, the aggregate carrying amount of the Derecognised Bills was RMB1,507,000 (2017: RMB2,419,000).

During the year ended 31 December 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

39. Fair Value and Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance controller reports directly to the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group did not have any financial assets and financial liabilities measured at fair value as at 31 December 2018 and 31 December 2017.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

40. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise pledged deposits, cash and cash equivalents, and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

40. Financial Risk Management Objectives and Policies (Continued)

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rates, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets except for cash and cash equivalents. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings at floating rate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2018, it was estimated that if interest rates at those dates had been 100 (2017: 100) basis points higher/lower, with all other variables held constant, there would have been a decrease/increase of RMB427,000 (2017: RMB407,000) in the Group's profit before tax and a decrease/increase of RMB427,000 (2017: RMB407,000) in the Group's equity for the year ended 31 December 2018 (through the impact on floating rate borrowings).

Foreign currency risk

Foreign currency risk means the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

The Group's businesses are mainly located in the PRC and are mainly transacted and settled in RMB. Accordingly, the directors considered that the Group's foreign currency exchange risk is insignificant. Certain sales and purchases were settled in other currencies including US$. The Group also had bank borrowings denominated in HK$. The fluctuation of the exchange rates of these currencies against RMB will affect the Group's results of operations.

Substantially all of the Group's turnover and substantially all of the Group's operating expenses are denominated in RMB, which is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currencies may restrict the ability of the Group's PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other amounts to the Group.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where RMB is to be converted into foreign currencies and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

40. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

Currently, the Group's PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to the shareholders of the PRC subsidiaries, with the prior approval of the State Administration for Foreign Exchange. The Group's PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange, this could affect the Group's subsidiaries' ability to obtain the required foreign currency amounts through debt or equity financing, including by means of loans or capital contributions from the Company.

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions to reduce the Group's exposure to foreign currency risk resulting from trade and bills receivables denominated in US$ and bank borrowings denominated in HK$. While the Group may decide to enter into other hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all.

A reasonably possible increase/decrease of 5% in the exchange rate of US$ against RMB or HK$ against RMB would have decreased/increased the Group's profit before tax by RMB467,000 (2017: RMB421,000) and decreased/increased the Group's equity by RMB23,403,000 (2017: RMB17,826,000) during the year ended 31 December 2018.

40. Financial Risk Management Objectives and Policies (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

	12-month ECLs	Lifetime ECLs			
	Stage1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Simplified approach *RMB'000*	Total *RMB'000*
Trade receivables*	–	–	–	183,621	183,621
Bills receivable	52,967	–	–	–	52,967
Financial assets included in prepayment, other receivables and other assets					
– Normal**	37,597	–	–	–	37,597
Pledged deposits					
– Not yet past due	85,000	–	–	–	85,000
Cash and cash equivalents					
– Not yet past due	504,884	–	–	–	504,884
Time deposits					
– Not yet past due	130,000	–	–	–	130,000
	810,448	–	–	183,621	994,069

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20.*

** *The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".*

40. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the Group's trade and bills receivables are widely dispersed in different customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 20 to the financial statements.

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate finance to repay the debt related to financial instruments. Liquidity risk may arise from the inability to dispose of financial assets promptly, counterparties being unable to repay their contracted debt obligations, the repayment of debts before the maturity dates of debt obligations, or the inability to generate the expected cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. In the opinion of the directors of the Company, the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within one year or on demand	
	2018	2017
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**82,671**	191,880
Trade and bills payables	**54,720**	83,908
Financial liabilities included in other payables and accruals	**77,619**	79,328
	215,010	355,116

40. Financial Risk Management Objectives and Policies (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, to maintain healthy capital ratios in order to support its business and maximise shareholders' value so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio and a debt-to-equity ratio. The gearing ratio is calculated as net debt divided by adjusted capital. Net debt/cash is calculated as total interest-bearing bank borrowings (as shown in the consolidated statement of financial position) less cash and cash equivalents and pledged deposits. Adjusted capital comprises all components of equity attributable to owners of the Company. The Group aims to maintain the gearing ratio at a reasonable level, if any. The debt-to-equity ratio is calculated by dividing the total interest-bearing bank and other borrowings by the total equity. The gearing ratios and debt-to-equity ratio as at the end of the reporting periods were as follows:

	2018 *RMB'000*	2017 *RMB'000*
Interest-bearing bank and other borrowings	**82,671**	190,709
Less: Cash and cash equivalents	**(504,884)**	(456,902)
Less: Pledged deposits	**(85,000)**	(214,300)
Net cash	**(507,213)**	(480,493)
Adjusted capital	**2,801,580**	2,827,420
Gearing ratio	**N/A**	N/A
Total equity	**2,814,266**	2,848,419
Debt-to-equity ratio	**2.9%**	6.7%

41. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation and accounting treatment.

42. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**180,190**	171,904
CURRENT ASSETS		
Amounts due from subsidiaries	**346,096**	444,216
Prepayments, other receivables and other assets	**83**	79
Bank balances	**7,244**	4,242
Total current assets	**353,423**	448,537
CURRENT LIABILITIES		
Amounts due to subsidiaries	**39,329**	37,520
Other payables	**1,122**	418
Total current liabilities	**40,451**	37,938
NET CURRENT ASSETS	**312,972**	410,599
Net assets	**493,162**	582,503
EQUITY		
Issued capital	**27,842**	28,060
Reserves *(note)*	**465,320**	554,443
Total equity	**493,162**	582,503

42. Statement of Financial Position of the Company (Continued)

Note:

A summary of the Company's reserves in presentation currency is as follows:

	Share premium account *RMB'000*	Treasury shares *RMB'000*	Contributed surplus *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2017	393,120	–	172,535	(66,200)	187,190	686,645
Loss for the year	–	–	–	–	(4,215)	(4,215)
Exchange realignment	–	–	–	(41,658)	–	(41,658)
Total comprehensive loss for the year	–	–	–	(41,658)	(4,215)	(45,873)
Final 2016 dividend	(86,329)	–	–	–	–	(86,329)
At 31 December 2017 and 1 January 2018	306,791	–	172,535	(107,858)	182,975	554,443
Loss for the year	–	–	–	–	(4,989)	(4,989)
Exchange realignment	–	–	–	20,861	–	20,861
Total comprehensive income for the year	–	–	–	20,861	(4,989)	15,872
Share repurchase	–	(9,494)	–	–	–	(9,494)
Cancellation of shares repurchased	(8,868)	9,086	–	–	–	218
Final 2017 dividend and special dividend	(95,719)	–	–	–	–	(95,719)
At 31 December 2018	202,204	(408)	172,535	(86,997)	177,986	465,320

42. Statement of Financial Position of the Company (Continued)

Note: (Continued)

A summary of the Company's reserves in functional currency is as follows:

	Share premium account HK$'000	Treasury shares HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	353,486*	–*	195,879	217,034*	766,399
Loss for the year	–	–	–	(4,365)	(4,365)
Total comprehensive loss for the year	–	–	–	(4,365)	(4,365)
Final 2016 dividend	(97,778)	–	–	–	(97,778)
At 31 December 2017 and 1 January 2018	255,708*	–*	195,879	212,669*	664,256
Loss for the year	**–**	**–**	**–**	**(5,910)**	**(5,910)**
Total comprehensive income for the year	**–**	**–**	**–**	**(5,910)**	**(5,910)**
Share repurchase	**–**	**(10,763)**	**–**	**–**	**(10,763)**
Cancellation of shares repurchased	**(10,032)**	**10,279**	**–**	**–**	**247**
Final 2017 dividend and special dividend	**(117,334)**	**–**	**–**	**–**	**(117,334)**
At 31 December 2018	**128,342***	**(484)***	**195,879**	**206,759***	**530,496**

* *These reserve accounts comprise the Company's reserves available for distribution amounting to HK$334,617,000 (2017: HK$468,377,000).*

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 March 2019.

FIVE YEAR FINANCIAL SUMMARY

The consolidated results and the consolidated assets, liabilities and non-controlling interests of Shenguan Holdings (Group) Limited and its subsidiaries (together the "Group") for the last five financial years are extracted from the published audited financial statements and represented below.

The summary below does not form part of the audited financial statements.

	2018 *RMB'000*	2017 *RMB'000*	2016 *RMB'000*	2015 *RMB'000*	2014 *RMB'000*
Year ended 31 December					
RESULTS					
REVENUE	**899,016**	1,007,991	980,617	1,054,565	1,403,008
Cost of sales	**(586,470)**	(767,303)	(687,542)	(588,713)	(633,214)
Gross profit	**312,546**	240,688	293,075	465,852	769,794
Other income and gains, net	**36,836**	34,942	88,473	41,016	38,359
Selling and distribution expenses	**(36,670)**	(43,621)	(32,506)	(11,660)	(17,743)
Administrative expenses	**(203,014)**	(158,054)	(177,898)	(140,372)	(99,663)
Finance costs, net	**(3,545)**	(8,726)	(15,927)	(17,700)	(14,610)
Share of profit and loss of an associate	**(7,430)**	102	–	–	–
PROFIT BEFORE TAX	**98,723**	65,331	155,217	337,136	676,137
Income tax expense	**(24,907)**	(8,965)	(21,565)	(51,558)	(128,661)
PROFIT FOR THE YEAR	**73,816**	56,366	133,652	285,578	547,476
Profit attributable to:					
Owners of the Company	**82,725**	68,794	154,163	291,390	547,476
Non-controlling interests	**(8,909)**	(12,428)	(20,511)	(5,812)	–
	73,816	56,366	133,652	285,578	547,476
As at 31 December					
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**3,117,666**	3,293,956	3,503,845	3,694,004	3,698,944
TOTAL LIABILITIES	**(303,400)**	(445,537)	(608,569)	(823,509)	(1,063,339)
NON-CONTROLLING INTERESTS	**(12,686)**	(20,999)	(71,579)	(89,746)	–
	2,801,580	2,827,420	2,823,697	2,780,749	2,635,605