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SHENGUAN

Shenguan Holdings (Group) Limited

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

2019 ANNUAL REPORT

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

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Causeway Bay
Hong Kong

Mainland Office

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Xijiang Fourth Road
Wuzhou, Guangxi
PRC

Principal Bankers

Agricultural Bank of China
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

30 March 2020
Announcement of 2019 Annual Results

26 May 2020 to 29 May 2020 (both days inclusive)
Closure of Register of Members
(for determining the eligibility to attend the Annual General Meeting)

29 May 2020
Annual General Meeting

4 June 2020 to 9 June 2020 (both days inclusive)
Closure of Register of Members
(for determining the eligibility to receive the final dividend)

On or around 29 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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Share Information

Board lot size: 2,000 shares

Shares in issue as at 31 December 2019
3,230,480,000 shares

Market capitalization as at 31 December 2019
HK$969,144,000

Basic earnings per share for 2019
Full year RMB2.3 cents

Total dividend per share for 2019
Full year HK6.0 cents

Enquiries Contact

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Website

www.shenguan.com.hk

Financial and Operating Summary for the Year ended 31 December

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

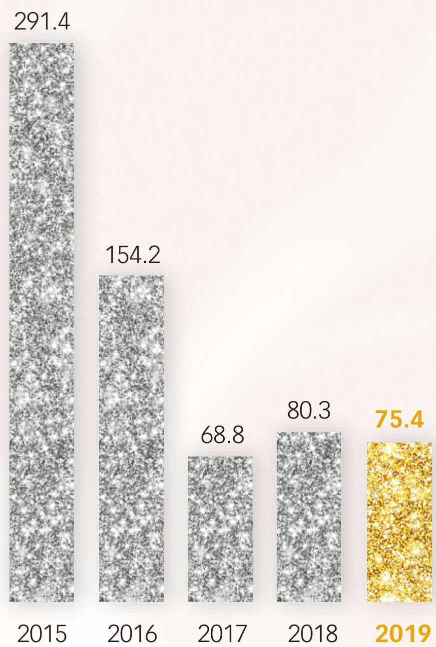
* *Calculated based on the average value between the beginning of the year and the end of the year*

Turnover

RMB million

Profit attributable to Owners of the Company

RMB million



"On the whole, 2020 is the final year for Shenguan Holdings (Group) Limited to implement its "Thirteenth Five-Year Plan". With the foundation laid over the past four years, the Group's plan for product diversification has already achieved results in terms of product research and development, production technologies and market expansion. The Group's diversified products have fully complied with the national industrial policies and local development plans, and it is the right moment to facilitate product diversification and develop the great health industry."

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 2019 (the "Year") of the Company and its subsidiaries (collectively referred to as the "Group").

In 2019, under the influence of the economic environment shaped by the Sino-US trade friction, global economic growth pressure, domestic growth pressure, overall increase in inflation, negative growth in domestic meat production and oversupply of collagen sausage casing industry, the Group continued to take collagen sausage casing as its principal business, stepped up the development of collagen food products, healthcare products, skincare products and medicinal products, and achieved new performance with product diversification while maintaining its domestic leading position in the collagen sausage casings sector.

Thanks to the joint efforts of its employees, the Group achieved "dual growth" in its production operation and economic benefits, and made new achievements in terms of quality improvement, product, technology and management innovation. However, due to the negative growth in domestic meat production, fierce market competition and customers' increasingly higher demand for products, the Group faced increasing pressure on product quality, sales, costs and human resources, which require more resources to improve and resolve the issues.

The Group was committed to facilitating 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, the Group improved the process and production technology of new products such as collagen rice noodles, collagen drinks, bovine collagen ingredients, etc. For collagen skincare products, the Group increased the development of collagen skincare product series according to market development trend. For collagen medical materials, the "Collagen Wound Dressing" developed by Guangdong Victory Biotech Co., Ltd. had completed the application materials for type 3 medical devices and submitted to the State Administration for Market Regulation in June 2019, the approval of which is still pending. In addition, our new product, collagen-based bone repairing biomaterials (膠原基骨修復生物材料), is being tested for its product technical indicators, and it is expected that the test report and the application for clinical trial approval will be completed during 2020.

On the whole, 2019 marked an important year of new product development and market expansion for the Group. For the principal business of collagen sausage casings, other than maintaining its existing customers, the Group also expanded new markets. Both its product quality and stability had also been improved, and automation innovation projects were also progressing well. In addition, the Group continued to deepen and optimize its performance management, and improved food safety, environmental protection and production safety management. The Group also strengthened the construction of corporate research and development platform, in which a group of highly-educated technical personnel was gathered to strengthen the research and development capability of scientific research projects, and government support was received.

Looking ahead, 2020 is the final year for the Group to implement the "Thirteenth Five-Year Plan". We will speed up the implementation of product diversification strategies, and by centering on the guiding ideology of "stabilizing quality, stabilizing market, prudent investment", we will complete all the desired targets and tasks of 2020, create new achievements in product diversification and lay a good foundation for the Group to enter into the "Fourteenth Five-Year Plan" period.

The Group believes that the aforesaid initiatives will continue to promote sustainable development, create new economic benefits, enhance the comprehensive competitiveness of the Group, so as to generate fabulous returns to the shareholders in the long run.

Ms. Zhou Yaxian
Chairman and President

Hong Kong, 30 March 2020

Market Review

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

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

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

Business Review

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

Owing to fierce market competition, customers' requirements for products also increased. In 2019, under the market management philosophy of "maintaining major customers, expanding middle-range diameter products and focusing on agents", the Group strengthened the communication with customers and improved the provision of services to ensure the stability of product quality of key customers and middle-range diameter products, so as to promote the sales of middle-range diameter products, and

maintain the position of the Group's collagen sausage casings in the domestic market. At the same time, the marketable high-end trial products are basically finalized and have entered into the stage of bulk trial production and customer trial use and achieved certain results. In addition, with the support of the government, the Group strengthened the research and development of its scientific research projects and had actively participated in public welfare undertakings such as student aid and poverty alleviation.

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

Industrial Layout and Technological Research & Development

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

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

During the Year, the Group achieved outstanding results in new product research and development. For collagen food products, the collagen rice noodles, bovine collagen and collagen solid and liquid drinks developed by the Group were put into trial production, some of which have already sold in the market. For collagen skincare products, the Group accelerated the development of collagen skincare product series according to market development trend. In particular, new products such as collagen serum product series,

collagen mask essences, collagen extracts and collagen superior had achieved substantial progress in research and development, while certain new products are undergoing trial production. The machine and equipment of the Group's R&D and production base in Singapore has also been basically installed.

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

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

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

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

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

Collagen Sausage Casings

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

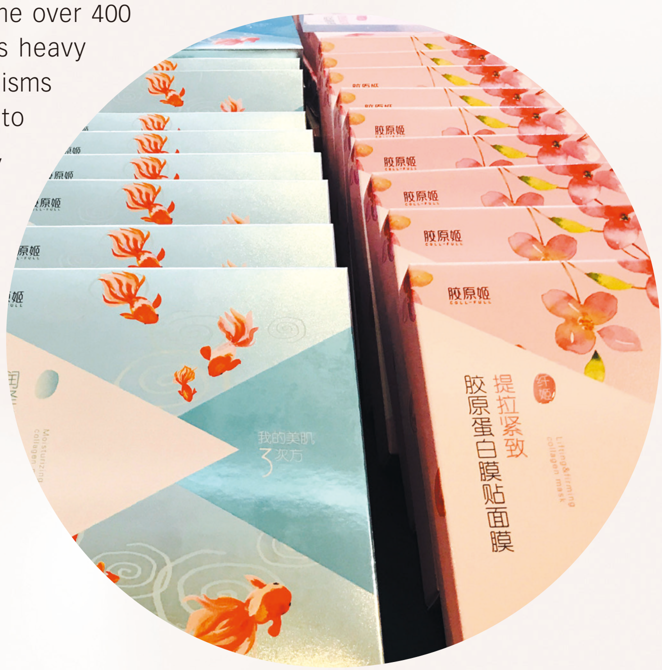
In order to keep pace with the new trend of the domestic meat product industry, the Group launched new products that can be applied to more types of sausages fillings to cater for the market. These new products are gradually marketed and adopted. At the same time, the Group also made tremendous efforts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

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

Quality Control

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

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



Customer Relationship

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

Financial Analysis

Revenue

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution expenses

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

Administrative expenses

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

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

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

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

Finance costs

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

Share of loss of an associate

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

Income tax expenses

Income tax expenses were approximately RMB17.3 million for the Year, as compared to approximately RMB24.9 million for the Prior Year. The Company's major operating subsidiary, Wuzhou Shenguan enjoyed a preferential tax treatment because of its location in western China and its engagement in industries encouraged by the government policies. The applicable tax rate for Wuzhou Shenguan was 15%.

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

Loss attributable to non-controlling interests

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

Profit attributable to owners of the Company

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

Liquidity and Capital Resources

Cash and bank borrowings

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

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

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

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

Cash flows

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

Exposure to exchange risks

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

Capital expenditure

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

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

Pledge of assets

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

Contingent liabilities

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

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

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

Events after the Year

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

Human Resources

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

Prospects and Strategies

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

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

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

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

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

The Group will further intensify the research on medical collagen, and strive to obtain the production permits for type III collagen wound dressing and the clinical trial approval of highly reactive collagen-based bone repairing biomaterials (高活性膠原基骨修復生物材料) during 2020, and also strive to obtain the certification of ISO13485 and ISO22442 of the European Union in 2020 for the medical collagen products in Wuzhou. In addition, the Group will also expand the sales channels of medical collagen raw materials and type I medical device products, so as to generate economic benefits for the Group as soon as possible.

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

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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 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 four meetings and one 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)*	4/4
Mr. Shi Guicheng	4/4
Mr. Ru Xiquan	4/4
Mr. Mo Yunxi	4/4
Dato' Sri Low Jee Keong	4/4
Mr. Tsui Yung Kwok	4/4
Mr. Meng Qinguo	3/4
Mr. Yang Xiaohu	4/4

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, there is effective communication with the shareholders and their views are communicated to the Board as a whole. The Chairman meets at least annually with the independent non-executive Directors without the other Directors being present.

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 2019 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.

Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi and Dato' Sri Low Jee Keong 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 all the Directors have confirmed that they had complied with the Model Code during the Year. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company.

Corporate Governance 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 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 websites 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 2018, the interim results for the six months ended 30 June 2019 of the Group and the Group's internal controls for the year ended 31 December 2018. 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 four 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)*	4/4
Mr. Meng Qinguo	4/4
Mr. Yang Xiaohu	4/4

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	755
Audit services	2,098
	2,853

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 websites 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 meeting 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 websites 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 2018 and 2019 and the performance of the Directors.

Remuneration of Directors and Senior Management

The Group has paid and accrued the amounts of approximately RMB4,040,000, RMB1,568,000, RMB1,568,000, RMB1,568,000, RMB70,000, RMB194,000, RMB194,000 and RMB194,000 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 2019, 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 2019 annual general meeting ("2019 AGM") was held on 22 May 2019. The attendance of the Directors at the 2019 AGM is as follows:

	Attendance/ Number of meetings held 2019 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	1/1
Mr. Yang Xiaohu	0/1

The Company's external auditors also attended the 2019 AGM.

Due to other pre-arranged business commitments which must be attended by Mr. Yang Xiaohu, Mr. Yang Xiaohu, being independent non-executive Director, was not present at the 2019 AGM. However, the remaining Directors were all present at the 2019 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 29 May 2020.

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.hk).

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 60, 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 40 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 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 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 56, 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 27 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.

Mr. Ru Xiquan
Vice President and Executive Director

Aged 57, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 29 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. Mo Yunxi
Vice President and Executive Director

Aged 51, Mr. Mo is primarily responsible for the Group's production and corporate management. He has long been engaged in product development and has nearly 27 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 54, Dato' Sri Low's Chinese name 劉子強 is an unofficial name. Dato' Sri Low has nearly 27 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 51, 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 26 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: 01760) since September 2010, September 2012, February 2013 and June 2018, respectively, the shares of which are all listed on the Stock Exchange. Mr. Tsui has retired as an independent non-executive director of 361 Degrees International Limited on 20 May 2019. 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 62, 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 45, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 22 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 64, Ms. Cai is primarily responsible for the Group's administration and logistics. She has nearly 27 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. Ms. Cai has retired from all positions in the Group since 18 March 2020, and she has been employed as a consultant to the Company since 18 March 2020.

Aged 58, 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 46, 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 24 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 has resigned as an independent non-executive director of Dowway Holdings Limited on 11 October 2019. 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 16 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 Measures for the Administration for Food Production Licensing (《食品生產許可管理辦法》), The Standardization Law of the PRC (《中華人民共和國標準化法》), 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》), The Import and Export Commodity Inspection Law of the PRC (《中華人民共和國進出口商品檢驗法》), The Regulations on the Implementation of the Import and Export Commodity Inspection Law of the PRC (《中華人民共和國進出口商品檢驗法實施條例》). 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 50 to 133 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 HK4.0 cents per ordinary share for the Year to celebrate the Company's listing 10 years anniversary to shareholders whose names appear on the register of members of the Company on 9 June 2020 (Tuesday). Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend and the special final dividend will be paid on or around 29 June 2020 (Monday).

Closure of Register of Members

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

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 134 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 28 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 on shares repurchased		Total price paid
			Highest	Lowest	
			HK$	*HK$*	*HK$*
January 2019	3,018,000	4,098,000	0.4600	0.4350	1,364,840

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

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

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

Distributable Reserves

For the Year, the loss of the Company amounted to approximately HK$6,467,000. 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 2019, the Company had distributable reserves amounting to approximately HK$210,525,000, of which approximately HK$193,829,000 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 RMB2,899,000.

Major Customers and Suppliers

During the Year, sales to the Group's five largest customers accounted for approximately 52.4% of the total sales for the Year and sales to the largest customer included therein amounted to approximately 16.6%. Purchases from the Group's five largest suppliers accounted for approximately 77.0% of total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 45.8%.

Guangxi 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.

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 29 to 32 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 2019 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 2019, the interests and short positions of the Directors and chief executive in the share, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and 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 in a controlled corporation *(Note 2)*	2,252,628,000 (L)	69.73%
	Beneficial owner	200,000 (L)	0.01%
Dato' Sri Low Jee Keong ("Dato' Sri Low")	Interest in a 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 in a controlled Corporation *(Note 2)*	65,454	65.45%
Dato' Sri Low	Rich Top Future	Interest in a 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 2019, 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 2019, 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)	59.94%
Xian Sheng	Beneficial owner	248,724,000 (L)	7.70%
Glories Site	Interest in a controlled corporation *(Note 2)*	1,936,434,000 (L)	59.94%
Hong Kong Shenguan	Interest in a controlled corporation *(Note 3)*	2,185,158,000 (L)	67.64%
	Beneficial owner	67,470,000 (L)	2.09%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse *(Note 4)*	2,252,828,000 (L)	69.74%

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 2019, 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 sought 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 2019, 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 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.

No option has been granted during the Year and no share options remained outstanding under the Scheme as at 31 December 2019. The Scheme expired on 18 September 2019 and the Company does not adopt new share option scheme thereafter.

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 29 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 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 Guangxi 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 RMB23,230,000 and the annual cap set in the said agreement for the Year is RMB33,850,000.

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 RMB5,256,000 and the annual cap set in the said agreement for the Year is RMB7,670,000.

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 Exceltech 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 Exceltech Frozen SDN. BHD. (Formerly known as LJK Frozen SDN. BHD) ("Exceltech Frozen"), 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 Exceltech Frozen, 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 Exceltech Frozen under the LJK Agreement for the Year amounted to RMB3,335,000 and the annual cap set in the said agreement for the Year is RMB6,000,000.

Exceltech Frozen 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 Exceltech Frozen, 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 term of three years 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 RMB129,869,000 and the annual cap set in the said agreement for the Year is RMB137,970,000.

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.

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(b) and (c) 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 2019, 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.

Events after the Year

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

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 2019 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
30 March 2020

* *For identification purpose only*

EY 安永

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 50 to 133, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 bioactive collagen products cash-generating unit ("CGU") As at 31 December 2019, the Group had technology knowhow as included in intangible assets of approximately RMB35.9 million relating to bioactive collagen products CGU. In accordance with HKAS 36 *Impairment of Assets*, management is required to determine whether there is any impairment of the CGU, to which the intangible assets are allocated. We focused on this area because this assessment was 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. The projection was largely based on management expectations and estimates of future results of the sale of bioactive collagen products. Related disclosures are included in notes 3 and 16 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.
Provision for obsolete and slow-moving inventories As at 31 December 2019, the Group had inventories (net of provision) amounting to approximately RMB472.4 million, which represented 15.3% of the total assets of the Group. As at 31 December 2019, provision balance for inventories of approximately RMB18.8 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 18 to the consolidated financial statements.	Our audit procedures included the assessment of controls over the identification and valuation of obsolete, damaged, slow-moving, excess and other inventory items for which their costs might 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)

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.

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

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.

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.

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)

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.

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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**997,500**	899,016
Cost of sales		**(765,312)**	(586,470)
Gross profit		**232,188**	312,546
Other income and gains, net	5	**60,044**	36,836
Selling and distribution expenses		**(35,425)**	(39,686)
Administrative expenses		**(167,272)**	(202,630)
Finance costs	7	**(1,678)**	(3,545)
Share of loss of an associate		**(4,002)**	(7,430)
PROFIT BEFORE TAX	6	**83,855**	96,091
Income tax expense	10	**(17,262)**	(24,907)
PROFIT FOR THE YEAR		**66,593**	71,184
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(832)**	(886)
NET OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(832)**	(886)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**65,761**	70,298
Profit attributable to:			
Owners of the Company		**75,444**	80,259
Non-controlling interests		**(8,851)**	(9,075)
		66,593	71,184
Total comprehensive income attributable to:			
Owners of the Company		**74,612**	79,373
Non-controlling interests		**(8,851)**	(9,075)
		65,761	70,298
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		
Basic *(RMB cents per share)*		**2.3**	2.5
Diluted *(RMB cents per share)*		**2.3**	2.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,125,619	1,194,793
Investment properties	14	7,901	7,799
Right-of-use assets	15(b)	116,090	–
Prepaid land lease payments	15(a)	–	122,010
Intangible assets	16(b)	36,104	87,809
Investment in an associate	17	28,965	47,389
Deferred tax assets	27	19,660	27,139
Long term prepayments and other receivables	20	8,410	10,064
Pledged deposit		50,000	–
Time deposits	22	220,000	130,000
Total non-current assets		1,612,749	1,627,003
CURRENT ASSETS			
Inventories	18	472,411	606,784
Trade and bills receivables	19	275,071	236,588
Prepayments, other receivables and other assets	20	69,069	57,407
Financial asset at fair value through profit or loss	21	10,139	–
Pledged deposits		45,000	85,000
Cash and cash equivalents	22	599,063	504,884
Total current assets		1,470,753	1,490,663
CURRENT LIABILITIES			
Trade and bills payables	23	78,553	54,720
Other payables and accrual	24	76,446	85,216
Interest-bearing bank and other borrowings	25	89,578	82,671
Lease liabilities	26	1,010	–
Tax payable		7,192	14,292
Total current liabilities		252,779	236,899
NET CURRENT ASSETS		1,217,974	1,253,764
TOTAL ASSETS LESS CURRENT LIABILITIES		2,830,723	2,880,767
NON-CURRENT LIABILITIES			
Lease liabilities	26	392	–
Deferred income		31,574	31,136
Deferred tax liabilities	27	22,330	35,365
Total non-current liabilities		54,296	66,501
Net assets		2,776,427	2,814,266

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	27,807	27,842
Reserves	30	2,744,635	2,773,738
		2,772,442	2,801,580
Non-controlling interests		3,985	12,686
Total equity		2,776,427	2,814,266

Ms. Zhou Yaxian
Director

Mr. Ru Xiquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

		Attributable to owners of the Company											
	Note	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000 (note 30(iv))	Contributed surplus RMB'000 (note 30(i))	Reserve funds RMB'000 (note 30(ii))	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note 30(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	30(iv)	–	–	(9,494)	–	–	–	–	–	–	(9,494)	–	(9,494)
Cancellation of shares repurchased	30(iv)	(218)	(8,868)	9,086	–	–	–	–	–	–	–	–	–
Final 2017 dividend and special dividend		–	(95,719)	–	–	–	–	–	–	–	(95,719)	–	(95,719)
Transfer from retained profits		–	–	–	–	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

Year ended 31 December 2019

		Attributable to owners of the Company											
	Note	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000 (note 30(iv))	Contributed surplus RMB'000 (note 30(i))	Reserve funds RMB'000 (note 30(ii))	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note 30(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019		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
Profit for the year		–	–	–	–	–	–	–	–	75,444	75,444	(8,851)	66,593
Other comprehensive income for the year:													
Exchange differences related to foreign operations		–	–	–	–	–	–	(832)	–	–	(832)	–	(832)
Total comprehensive income for the year		–	–	–	–	–	–	(832)	–	75,444	74,612	(8,851)	65,761
Disposal of partial interest in a subsidiary		–	–	–	–	–	–	–	–	–	–	150	150
Share repurchase	30(iv)	–	–	(1,196)	–	–	–	–	–	–	(1,196)	–	(1,196)
Cancellation of shares repurchased	30(iv)	(35)	(1,569)	1,604	–	–	–	–	–	–	–	–	–
Final 2018 dividend and special dividend		–	(102,554)	–	–	–	–	–	–	–	(102,554)	–	(102,554)
At 31 December 2019		27,807	98,081*	–*	59*	373,151*	23,502*	(107,056)*	(264,343)*	2,621,241*	2,772,442	3,985	2,776,427

* *These reserve accounts comprise the consolidated reserves of RMB2,744,635,000 (2018: RMB2,773,738,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		83,855	96,091
Adjustments for:			
Interest on bank and other bank borrowings	7	1,678	3,545
Share of loss of an associate		4,002	7,430
Bank interest income	5	(24,156)	(15,568)
Other interest income	5	(15,567)	–
Fair value gain on a financial asset at fair value through profit or loss	5	(139)	–
Gain on disposal of financial assets at fair value through profit or loss	5	(3,819)	(7,414)
Gain on disposal of right-of-use assets	5	(3,841)	–
Loss on disposal of items of property, plant and equipment, net	6	1,945	11,291
Depreciation	6	94,231	94,469
Changes in fair value of investment properties	5	(102)	(205)
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	6	3,948	3,220
Amortisation of intangible assets	6	51,705	51,705
Impairment of goodwill	6	–	22,760
Impairment of an investment in an associate	6	14,422	13,607
Government grants released		(8,746)	(8,286)
Write-off of inventories	6	5,709	7,457
Provision against obsolete and slow-moving inventories	6	4,583	7,620
		209,708	287,722
Decrease/(increase) in inventories		124,081	(47,263)
(Increase)/decrease in trade and bills receivables		(38,207)	57,750
Decrease in prepayments, deposits and other receivables and other assets		2	4,765
Increase/(decrease) in trade and bills payables		23,833	(29,188)
Decrease in other payables and accruals		(3,531)	(3,616)
Receipt of government grants		9,184	6,817
Cash generated from operations		325,070	276,987
Interest received		25,955	32,343
Hong Kong profits tax paid		(1,017)	(805)
PRC corporate income tax paid		(28,903)	(26,416)
Net cash flows from operating activities		321,105	282,109

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(31,661)	(23,223)
Proceeds from disposal of right-of-use assets		11,182	–
Net changes to financial assets at fair value through profit or loss		(6,181)	7,414
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(43,117)	(322,883)
(Increase)/decrease in pledged deposits		(10,000)	129,300
Net cash flows used in investing activities		(79,777)	(209,392)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		88,052	60,000
Repayment of bank loans and other borrowings		(82,882)	(170,000)
Interest paid		(1,555)	(4,370)
Principal portion of lease payments		(764)	–
Shares repurchase		(1,196)	(9,494)
Capital contribution by a non-controlling shareholder		–	762
Disposal of partial interest in a subsidiary		150	–
Dividends paid		(102,554)	(95,719)
Net cash flows used in financing activities		(100,749)	(218,821)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		140,579	(146,104)
Cash and cash equivalents at beginning of year		232,001	376,902
Effect of foreign exchange rate changes, net		483	1,203
CASH AND CASH EQUIVALENTS AT END OF YEAR		373,063	232,001
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	318,203	172,001
Non-pledged time deposits with original maturity of less than three months when acquired		54,860	60,000
Cash and cash equivalents as stated in the consolidated statement of cash flows		373,063	232,001
Non-pledged time deposits with original maturity of over three months when acquired		446,000	402,883
		819,063	634,884
Less: Non-pledged time deposits classified as non-current		(220,000)	(130,000)
Cash and cash equivalents as stated in the consolidated statement of financial position	22	599,063	504,884

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 Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, 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		Principal activities
			Direct	Indirect	
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
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
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

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

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

** *The entity is registered as a domestic limited liability company 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. 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.

2.1 Basis of Presentation (Continued)

Basis of consolidation (Continued)

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRS, 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

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

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impacts on transition

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

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

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

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Using a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on its assessment of whether leases are onerous immediately before the date of initial application
- Excluding the initial direct costs from the measurement of the right-of-use asset at the date of initial application

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Financial impact at 1 January 2019

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

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

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

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

(b) Adoption of Amendments to HKAS 28

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

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

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

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*[1]
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2022
3 No mandatory effective date yet determined but available for adoption

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

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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKAS 39, HKFRS 7 and HKFRS 9 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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.

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

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.

Fair value measurement

The Group measures its investment properties and structured deposit 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.

2.4 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), 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 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.

2.4 Summary of Significant Accounting Policies (Continued)

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

(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.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost 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.

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 are stated at cost less any impairment losses, and are 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.

2.4 Summary of Significant Accounting Policies (Continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) 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" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset 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.

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

Research and development costs

All research costs are charged to profit or loss as incurred.

2.4 Summary of Significant Accounting Policies (Continued)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 to 50 years
Office and production premises	1 to 2 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office and production premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 Summary of Significant Accounting Policies (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income and gains in the statement of profit or loss due to its non-operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets

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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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 amortised cost (debt instruments)

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 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)

Derecognition of financial assets

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

The Group recognises an allowance for expected credit losses ("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 (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 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)

Financial liabilities

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 payables, 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 and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (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

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.

Offsetting of financial instruments

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.

2.4 Summary of Significant Accounting Policies (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

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 with 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.

(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. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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 29 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 statements of 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 an 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.

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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 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.

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

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 (including the right-of-use 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.

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.

Information about major customers

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

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

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

5. Revenue, Other Income and Gains, Net

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

	2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers		
Goods transferred at point in time	**997,357**	898,768
Service transferred over time	**143**	248
	997,500	899,016

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:

	2019 *RMB'000*	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**4,964**	5,439

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 2019.

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

	2019 RMB'000	2018 RMB'000
Other income		
Bank interest income	**24,156**	15,568
Other interest income	**15,567**	–
Sale of dried meat products	**664**	586
Government grants*	**8,746**	8,286
Others	**2,313**	1,031
	51,446	25,471
Gains		
Foreign exchange gain, net	**697**	3,746
Gain on disposal of financial assets at fair value through profit or loss	**3,819**	7,414
Gain on disposal of right-of-use assets	**3,841**	–
Fair value gain on a financial asset at fair value through profit or loss	**139**	–
Fair value gains on investment properties	**102**	205
	8,598	11,365
Total other income and gains, net	**60,044**	36,836

* *During the year ended 31 December 2019, various government grants have been received in respect of improvements made to plant, machinery and equipment. (2018: 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 2019 (2018: Nil).

6. Profit Before Tax

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

	Notes	2019 RMB'000	2018 RMB'000
Employee benefit expense (including directors' remuneration (note 8):			
Wages and salaries		**154,530**	151,936
Retirement benefit contributions		**25,234**	24,371
		179,764	176,307
Auditor's remuneration		**2,098**	2,098
Cost of inventories sold**		**672,112**	487,295
Depreciation of property, plant and equipment	13	**94,231**	94,469
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	15	**3,948**	3,220
Impairment of goodwill*	16(a)	**–**	22,760
Amortisation of intangible assets*	16(b)	**51,705**	51,705
Impairment of an investment in an associate*	17(c)	**14,422**	13,607
Minimum lease payments under operating leases		**–**	3,771
Lease payments not included in the measurement of lease liabilities	15(d)	**3,029**	–
Loss on disposal of items of property, plant and equipment, net*	13	**1,945**	11,291
(Reversal of)/impairment of trade receivables, net*	19	**(3,916)**	187
Write-off of inventories**		**5,709**	7,457
Provision against obsolete and slow-moving inventories**		**4,583**	7,620
Foreign exchange differences, net		**(697)**	(3,746)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**12**	11

* *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

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

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	
	2019 RMB'000	2018 RMB'000
Fees	**932**	898
Other emoluments:		
Salaries, allowances and benefits in kind	**6,831**	6,615
Discretionary performance-related bonuses*	**1,524**	1,627
Retirement benefit contributions	**109**	75
	8,464	8,317
	9,396	9,215

* *Executive directors of the Company are entitled to bonus payments which are determined as a percentage of the adjusted consolidated profit before tax of the Group.*

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Mr. Tsui Yung Kwok	**194**	186
Mr. Meng Qinguo	**194**	186
Mr. Yang Xiaohu	**194**	186
	582	558

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. Directors' Remuneration (Continued)

(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*
2019					
Executive directors:					
Ms. Zhou Yaxian	70	3,213	693	64	4,040
Mr. Shi Guicheng	70	1,206	277	15	1,568
Mr. Ru Xiquan	70	1,206	277	15	1,568
Mr. Mo Yunxi	70	1,206	277	15	1,568
	280	6,831	1,524	109	8,744
Non-executive director:					
Dato' Sri Low Jee Keong	70	–	–	–	70
	350	6,831	1,524	109	8,814

	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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included four directors (2018: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2018: one) highest paid employee who is not a director of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**1,266**	1,264
Discretionary performance related bonuses	**277**	296
Retirement benefit contributions	**15**	25
	1,558	1,585

The non-director 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, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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

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

	2019 RMB'000	2018 RMB'000
Current – PRC	**21,467**	35,400
Current – Hong Kong		
Charge for the year	**1,353**	1,167
Deferred tax *(Note 27)*	**(5,558)**	(11,660)
Total tax charge for the year	**17,262**	24,907

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:

2019

	Mainland China		Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	**77,026**		**6,829**		**83,855**	
Tax at the statutory tax rates	**19,248**	**25.0**	**981**	**14.4**	**20,229**	**24.1**
Lower tax rate for specific province or enacted by local authority	**(15,709)**		**–**		**(15,709)**	
Loss attributable to an associate	**600**		**–**		**600**	
Expenses not deductible for tax	**6,508**		**946**		**7,454**	
Income not subject to tax	**(2,154)**		**(1,514)**		**(3,668)**	
Tax losses not recognised	**7,416**		**940**		**8,356**	
Tax charge at the Group's effective rate	**15,909**	**20.7**	**1,353**	**19.8**	**17,262**	**20.6**

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

11. Dividends

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

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

12. Earnings Per Share Attributable to Ordinary Owners of the Company

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

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

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 2019						
At 31 December 2018 and 1 January 2019:						
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
At 1 January 2019, net of accumulated depreciation	73,611	470,705	508,732	5,359	136,386	1,194,793
Additions	–	1,545	8,256	307	13,803	23,911
Disposals	–	–	(1,807)	(138)	–	(1,945)
Depreciation provided during the year	–	(20,419)	(72,646)	(1,166)	–	(94,231)
Transfers	–	3,658	6,216	–	(9,874)	–
Exchange realignment	2,374	392	30	26	269	3,091
At 31 December 2019, net of accumulated depreciation	75,985	455,881	448,781	4,388	140,584	1,125,619
At 31 December 2019:						
Cost	75,985	619,182	1,034,424	17,125	140,584	1,887,300
Accumulated depreciation	–	(163,301)	(585,643)	(12,737)	–	(761,681)
Net carrying amount	75,985	455,881	448,781	4,388	140,584	1,125,619

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 2018						
At 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

14. Investment Properties

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	**7,799**	7,594
Net gain from a fair value adjustment	**102**	205
Carrying amount at 31 December	**7,901**	7,799

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 2019 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 RMB7,901,000 (2018: RMB7,799,000). 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 15 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 2019	**–**	**–**	**7,901**	**7,901**
As at 31 December 2018	–	–	7,799	7,799

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 (2018: 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 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 and 1 January 2019	**7,799**
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**102**
Carrying amount at 31 December 2019	**7,901**

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

	Valuation technique	Significant observable inputs	Value/rate 2019	Value/rate 2018
Commercial properties	Discount cash flow method	Estimated rental value (per sq.m. per month)	**RMB157**	RMB155
		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. Leases

The Group as a lessee

The Group has lease contracts for various items of office and production premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office and production premises generally have lease terms between 1 and 2 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	128,433
Recognised in profit or loss during the year	(3,220)
Carrying amount at 31 December 2018	125,213
Analysed into:	
Current portion	3,203
Non-current portion	122,010

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments *RMB'000*	Office and production premises *RMB'000*	Total *RMB'000*
As at 1 January 2019	125,213	255	125,468
Addition	–	1,889	1,889
Disposal	(7,341)	–	(7,341)
Depreciation charge	(3,171)	(777)	(3,948)
Exchange realignment	–	22	22
As at 31 December 2019	114,701	1,389	116,090

15. Leases (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 *RMB'000*
Carrying amount at 1 January	255
New leases	1,889
Accretion of interest recognised during the year	35
Payments	(799)
Exchange realignment	22
Carrying amount at 31 December	1,402
Analysed into:	
Current portion	1,010
Non-current portion	392

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 *RMB'000*
Interest on lease liabilities	35
Depreciation charge of right-of-use assets	3,948
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	3,029
Total amount recognised in profit or loss	7,012

(e) The total cash outflow for leases is disclosed in note 32(c) to the financial statements.

15. Leases (Continued)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of three commercial properties in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB308,000 (2018: RMB308,000).

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Within one year	**308**	308
After one year but within two years	**153**	308
After two years but within three years	**–**	153
	461	769

16. Intangible Assets

(a) Goodwill

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

16. Intangible Assets (Continued)

(a) Goodwill (Continued)

Impairment test of bioactive collagen products cash-generating unit

Goodwill acquired through business combinations relates to the bioactive collagen products cash-generating unit for impairment testing.

Bioactive collagen products cash-generating unit

At 31 December 2018, the recoverable amount of the bioactive collagen products cash-generating unit was 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 years and adopted a terminal growth rate of 2.2% beyond the eighth year. Management believed that this forecast period was 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 was 27.3%.

Assumptions were used in the value in use calculations of the bioactive collagen products cash-generating unit 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 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 had been provided on goodwill 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.

16. Intangible Assets (Continued)

(b) Other intangible assets

	Trademarks *RMB'000*	Technology knowhow* *RMB'000*	Total *RMB'000*
31 December 2019			
At 31 December 2018 and 1 January 2019:			
Cost	**4,542**	**253,986**	**258,528**
Accumulated amortisation	**(3,404)**	**(167,315)**	**(170,719)**
Net carrying amount	**1,138**	**86,671**	**87,809**
At 1 January 2019, net of accumulated amortisation	**1,138**	**86,671**	**87,809**
Amortisation provided during the year *(note 6)*	**(908)**	**(50,797)**	**(51,705)**
At 31 December 2019	**230**	**35,874**	**36,104**
At 31 December 2019:			
Cost	**4,542**	**253,986**	**258,528**
Accumulated amortisation	**(4,312)**	**(218,112)**	**(222,424)**
Net carrying amount	**230**	**35,874**	**36,104**
31 December 2018			
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

* *The technology knowhow forms part of the bioactive collagen products cash-generating unit.*

16. Intangible Assets (Continued)

(b) Other intangible assets (Continued)

Impairment test of bioactive collagen products cash-generating unit

At 31 December 2019, 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 a ten-year period approved by senior management which is extrapolated using declining growth rates from sixth to tenth year. Management believed that this forecast period was justified due to the expected useful life of core assets in bioactive collagen products cash-generating unit. The pre-tax discount rate applied to cash flow projections was 27.5%.

Assumptions were used in the value in use calculations of the bioactive collagen products cash-generating unit for the year ended 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

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.

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 2019:

– An increase of 6.2% in the discount rate adopted would result in the reduction of the recoverable amount of RMB7,200,000.

– A reduction of 5.4% in the annual growth rates would result in the reduction of the recoverable amount of RMB7,200,000.

17. Investment in an Associate

	2019 RMB'000	2018 RMB'000
Share of net assets	**28,965**	32,967
Goodwill on acquisition	**28,029**	28,029
	56,994	60,996
Provision for impairment	**(28,029)**	(13,607)
	28,965	47,389

(a) Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ operation	Percentage of ownership interest attributable to the Group 2019	2018	Principal activities
Ferguson (Wuhan) Biotech Company Limited ("Ferguson")	Ordinary shares	PRC/Mainland China	**25%**	25%	Manufacture and sale of health care products

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

17. Investment in an Associate (Continued)

(b) 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:

	2019 RMB'000	2018 RMB'000
Current assets	82,351	94,702
Non-current assets, excluding goodwill	119,551	129,411
Goodwill on acquisition of the associate	–	57,688
Current liabilities	(83,287)	(88,485)
Non-current liabilities	(2,755)	(3,760)
Net assets	115,860	189,556
Net assets, excluding goodwill	115,860	131,868
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	28,965	32,967
Goodwill on acquisition (less cumulative impairment)	–	14,422
Carrying amount of the investment	28,965	47,389
Revenue for the year	96,102	88,409
Loss for the year	(16,008)	(29,720)
Total comprehensive loss for the year	(16,008)	(29,720)

17. Investment 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 2.6% (2018: 2.5%) beyond the fifth year. The pre-tax discount rate applied to cash flow projections is 15.7% (2018: 18.1%).

Assumptions were used in the estimation of fair value less costs of disposal of the associate for the year ended 31 December 2019. 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 2019, an impairment loss of RMB14,422,000 (2018: 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.

Since January 2020, the operation of the associate was halted after Lunar New Year due to the rapid development of the novel Coronavirus ("COVID-19") outbreak in Wuhan, where the associate is located, and has since not resumed normal business up to the reporting date. Management is still assessing the impact of the novel Coronavirus outbreak on the investment of the associate.

18. Inventories

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**70,587**	49,809
Work in progress	**95,799**	215,368
Finished goods	**306,025**	341,607
	472,411	606,784

19. Trade and Bills Receivables

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

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

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

19. Trade and Bills Receivables (Continued)

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

	2019 RMB'000	2018 RMB'000
At 1 January	**26,180**	25,993
Impairment losses, net *(note 6)*	**(3,916)**	187
At 31 December	**22,264**	26,180

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.

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 2019

		Past due				
	Current	Less than 1 month	1 to 3 months	3 to 9 months	Over 9 months	Total
Expected credit loss rate (%)	**0.7**	**4.3**	**22.3**	**39.3**	**86.7**	**10.7**
Gross carrying amount (RMB'000)	**173,864**	**5,183**	**3,712**	**3,826**	**21,397**	**207,982**
Expected credit loss (RMB'000)	**1,152**	**222**	**829**	**1,505**	**18,556**	**22,264**

As at 31 December 2018

		Past due				
	Current	Less than 1 month	1 to 3 months	3 to 9 months	Over 9 months	Total
Expected credit loss rate (%)	1.7	3.6	12.6	40.0	88.3	12.5
Gross carrying amount (RMB'000)	162,844	15,586	2,236	6,585	22,550	209,801
Expected credit loss (RMB'000)	2,795	566	281	2,635	19,903	26,180

The financial impact of expected credit losses for bills receivable under HKFRS 9 is insignificant for the years ended 31 December 2019 and 2018.

19. Trade and Bills Receivables (Continued)

Due from related companies:

	Notes	At 31 December 2019 RMB'000	At 31 December 2018 and 1 January 2019 RMB'000	At 1 January 2018 RMB'000
Exceltech Frozen SDN. BHD. ("Exceltech Frozen") (formerly known as LJK Frozen SDN. BHD.)	(a)	**1,701**	792	–
Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan")	(b)	**976**	–	–
		2,677	792	–

Notes:

(a) Exceltech Frozen is controlled by Dato' Sri Low Jee Keong, a director of the Company. The maximum outstanding balances of the amount due from Exceltech Frozen during the years ended 31 December 2019 and 2018 was RMB1,701,000 and RMB1,568,000, respectively. The amount due from Exceltech Frozen is unsecured, non-interest-bearing and has a repayment term of 60 days, which is on terms similar to those offered to other major customers of the Group.

(b) Guangxi Zhiguan is controlled by Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, directors of the Company. The maximum outstanding balances of the amount due from Guangxi Zhiguan during the years ended 31 December 2019 and 2018 were RMB1,442,000 and nil, respectively. The amount due from Guangxi Zhiguan is unsecured, non-interest-bearing and has a repayment term of 30 days, which is on terms similar to those offered to other customers of the Group.

20. Prepayments, Other Receivables and Other Assets

	2019 RMB'000	2018 RMB'000
Prepayments	31,604	26,875
Deposits and other receivables	45,875	37,393
Prepaid land lease payments	–	3,203
	77,479	67,471
Less: Current portion	(69,069)	(57,407)
Non-current portion	8,410	10,064

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 2019 and 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 was insignificant for the years ended 31 December 2019 and 2018.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

21. Financial Asset at Fair Value Through Profit or Loss

	2019 RMB'000	2018 RMB'000
Unlisted investment, at fair value	10,139	–

The above unlisted investment was principal-protected structured deposit issued by a bank in the PRC with interest rate varied in relation to the relative movement of the underlying variables. It was mandatorily classified as financial asset at fair value through profit or loss as its contractual cash flow is not solely payments of principal and interest.

Subsequent to the end of the reporting period, the structured deposit has been settled and the related gain from this investment amounted to RMB177,000.

22. Cash and Cash Equivalents and Pledged Deposits

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**318,203**	172,001
Time deposits	**595,860**	547,883
	914,063	719,884
Less: Pledged time deposits for		
– bank loans and borrowings *(note 25(c))*	**(95,000)**	(85,000)
Less: Non-current time deposits	**(220,000)**	(130,000)
Cash and cash equivalents	**599,063**	504,884

At the end of the reporting period, the cash and bank balances (including time deposits) of the Group denominated in RMB amounted to RMB848,469,000 (2018: RMB686,221,000). 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:

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

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

As at 31 December 2019, trade payables amounting to RMB15,494,000 (2018: RMB12,864,000) and bills payable amounting to RMB10,000,000 (2018: Nil) are payable to Guangxi Zhiguan for the purpose of purchasing cattle hides. The trade and bills payables to Guangxi Zhiguan are settled on terms no longer than 180 days.

24. Other Payables and Accruals

	Notes	2019 RMB'000	2018 RMB'000
Contract liabilities	(a)	**11,093**	4,964
Accruals		**17,936**	19,580
Other payables	(b)	**47,417**	60,672
		76,446	85,216

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers for the sale of goods	**11,093**	4,964	5,439

Contract liabilities include short-term advances received from customers to deliver goods.

At 31 December 2019, the increase in contract liabilities was mainly due to the increase in short-term advances from customers in relation to the sale of edible collagen sausage casings at the end of year.

At 31 December 2018, the decrease in contract liabilities was mainly due to the decrease in short-term advances from customers in relation to the sale of edible collagen sausage casings at the end of 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

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	HIBOR + 0.6	On demand	89,578	HIBOR + 0.6	On demand	42,671
Discounted bills with recourse	–	–	–	3.75 – 4.75	2019	40,000
			89,578			82,671

	2019 RMB'000	2018 RMB'000
Analysed into:		
Within one year or on demand	89,578	82,671

Notes:

(a) As at 31 December 2019, all of the Group's bank borrowings were denominated in HK$.

(b) As at 31 December 2018, except for the secured bank borrowing amounting to RMB42,671,000 which was denominated in HK$, all of the Group's bank and other borrowings were denominated in RMB.

(c) As at 31 December 2019, time deposits of RMB95,000,000 (2018: RMB45,000,000) were pledged to secure bank borrowings of RMB89,578,000 (2018: RMB42,671,000).

(d) As at 31 December 2018, time deposit of RMB40,000,000 were pledged to secure discounted bills with recourse of RMB40,000,000.

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

26. Lease Liabilities

		2019	
	Note	31 December RMB'000	1 January RMB'000
Current	15(c)	1,010	170
Non-current	15(c)	392	85
		1,402	255

27. 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 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 and 1 January 2019	**4,851**	**500**	**2,611**	**6,089**	**2,133**	**10,955**	**–**	**27,139**
Deferred tax credited/ (charged) to profit or loss during the year *(note 10)*	**14**	**505**	**85**	**(658)**	**688**	**(8,113)**	**–**	**(7,479)**
At 31 December 2019	**4,865**	**1,005**	**2,696**	**5,431**	**2,821**	**2,842**	**–**	**19,660**

27. 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 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 and 1 January 2019	**90**	**23,169**	**12,106**	**35,365**
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	**–**	**(13,037)**	**–**	**(13,037)**
Exchange difference	**2**	**–**	**–**	**2**
At 31 December 2019	**92**	**10,132**	**12,106**	**22,330**

The Group has tax losses arising in Hong Kong of HK$34,700,000 (2018: HK$28,589,000), which equivalent to RMB30,554,000 (2018: RMB24,137,000) 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 deferred tax asset has been recognised in respect of tax losses arising in the PRC of RMB95,127,000 (2018: RMB63,740,000) 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 RMB2,305,618,000 (2018: RMB2,225,892,000) at 31 December 2019. 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.

28. Share Capital

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

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

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares 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 2018	3,259,276,000	32,593	255,708	28,060	306,791	334,851
Cancellation of shares repurchased *(note 30(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 and 1 January 2019	**3,234,578,000**	**32,346**	**128,342**	**27,842**	**202,204**	**230,046**
Cancellation of shares repurchased *(note 30(iv))*	**(4,098,000)**	**(41)**	**(1,812)**	**(35)**	**(1,569)**	**(1,604)**
Final 2018 dividend and special dividend	**–**	**–**	**(116,297)**	**–**	**(102,554)**	**(102,554)**
At 31 December 2019	**3,230,480,000**	**32,305**	**10,233**	**27,807**	**98,081**	**125,888**

29. 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 highest 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 falling within the period before the date of listing of the Shares.

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

At 31 December 2019 and at the date of approval of these financial statements, the Company had no share options outstanding under the Scheme. The Scheme expired on 18 September 2019 and the Company does not adopt new share option scheme thereafter.

30. 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 2019, the Company repurchased its own ordinary shares of 3,018,000 (2018: 25,778,000) on the Stock Exchange at an aggregate consideration of HK$1,365,000 (equivalent to RMB1,191,000) (2018: HK$10,724,000 (equivalent to RMB9,460,000)). Together with the 1,080,000 repurchased shares which were held as treasury shares as at 31 December 2018, 4,098,000 ordinary shares were cancelled by the Company as at 31 December 2019. Upon the cancellation of the 4,098,000 (2018: 24,698,000) shares repurchased, the issued share capital of the Company was reduced by the par value of HK$41,000 (equivalent to RMB35,000) (2018: HK$247,000 (equivalent to RMB218,000)) and the premium paid on the repurchase of these cancelled shares of HK$1,812,000 (equivalent to RMB1,569,000) (2018: HK$10,032,000 (equivalent to RMB8,868,000)), including transaction costs, was deducted from share premium of the Company.

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

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

	2019	2018
Percentage of equity interest held by non-controlling interests of Guangdong Victory	**20%**	20%

	2019 *RMB'000*	2018 *RMB'000*
Loss for the year allocated to non-controlling interests of Guangdong Victory	**(8,348)**	(8,477)
Dividends paid to non-controlling interests of Guangdong Victory	**–**	–
Accumulated balances of non-controlling interests at the reporting date of Guangdong Victory	**4,240**	12,588

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

	2019 *RMB'000*	2018 *RMB'000*
Revenue	**1,110**	164
Total expenses	**(42,852)**	(42,548)
Loss for the year	**(41,741)**	(42,384)
Total comprehensive income for the year	**(41,741)**	(42,384)
Current assets	**2,499**	2,327
Non-current assets	**40,893**	90,391
Current liabilities	**(9,200)**	(4,085)
Non-current liabilities	**(8,968)**	(21,668)
Net cash flows used in operating activities	**(2,714)**	(3,539)
Net cash flows used in investing activities	**(1,859)**	(639)
Net cash flows from financing activities	**5,029**	3,956
Net increase/(decrease) in cash and cash equivalents	**456**	(222)

32. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,889,000 and RMB1,889,000, respectively, in respect of lease arrangements for office and production premises (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Interest-bearing bank and other borrowings *RMB'000*	Lease liabilities *RMB'000*
At 31 December 2018	82,671	–
Effect of adoption of HKFRS 16	–	255
At 1 January 2019	82,671	255
New bank borrowings	88,052	–
Repayment of bank borrowings	(82,882)	–
New lease	–	1,889
Lease payments	–	(799)
Interest expenses	–	35
Foreign exchange movement	1,737	22
At 31 December 2019	89,578	1,402

2018

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

(c) Total cash outflows for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 *RMB'000*
Within operating activities	3,029
Within financing activities	799
	3,828

33. Contingent Liabilities

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

34. Pledge of Assets

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

35. Commitments

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Buildings	**111,652**	104,925
Plant and machinery	**9,414**	7,510
	121,066	112,435

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office and production premises under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

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

	2018 RMB'000
Within one year	1,786
In the second to fifth years, inclusive	90
	1,876

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	2019 RMB'000	2018 RMB'000
Company controlled by a director of the Company:			
Continuing connected transactions:			
Sales of products	(i)	**4,972**	4,234
Purchases of cattle hides	(ii)	**129,869**	102,584
Rent of production premises	(ii)	**2,429**	2,100
Administrative support and liaising services	(ii)	**182**	147
Companies controlled by a spouse of a director of the Company:			
Continuing connected transactions:			
Purchases of packing and printing materials	(ii)	**28,486**	31,312

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.

(b) Balances with related parties

Balances with related parties are detailed in notes 19 and 23 to financial statements.

(c) Compensation of key management personnel

	2019 RMB'000	2018 RMB'000
Fees	**280**	272
Salaries, allowances and benefits in kind	**10,458**	10,192
Discretionary performance-related bonuses	**2,078**	2,219
Retirement benefit contributions	**140**	115
Total compensation paid to key management personnel	**12,956**	12,798

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

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

37. Financial Instruments by Category

Except for unlisted investment which was measured at fair value through profit or loss (as disclosed in note 21), all other financial assets and liabilities of the Group as at 31 December 2019 were financial assets at amortised cost (2018: financial assets at amortised cost), and financial liabilities at amortised cost (2018: financial liabilities at amortised cost), respectively.

38. Transfers of Financial Assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2019, 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 2019, the aggregate carrying amount of the Endorsed Bills was RMB44,313,000 (2018: RMB17,026,000).

Transferred financial assets that are derecognised in their entirety

At 31 December 2019, 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 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 receivable (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 2019, the aggregate carrying amount of the Derecognised Bills was RMB2,722,000 (2018: RMB1,507,000).

During the year ended 31 December 2019, 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 and other 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 following method and assumption were used to estimate the fair value:

The Group invests in an unlisted investment, which represents a principal-protected structured product issued by a bank in the PRC. The Group has estimated the fair value of structured deposit by using a discounted cash flow valuation model based on the market interest rate of instruments with similar terms and risks.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instrument:

Asset measured at fair value
At 31 December 2019

	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*
Financial asset at fair value through profit or loss	–	–	10,139	10,139

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

Financial asset at fair value through profit or loss included a structured deposit which its fair value was determined based on significant unobservable input (Level 3) including expected rate of return of 2.9%.

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 (2018: Nil).

39. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Movement in fair value measurement within Level 3

For the year ended 31 December 2019, the Group purchased financial assets at fair value through profit or loss of RMB617,000,000 and disposed of financial assets at fair value through profit or loss of RMB607,000,000, with a gain on disposal of RMB3,819,000 and a fair value gain of RMB139,000 recognised in profit or loss.

For the year ended 31 December 2018, the Group purchased financial assets at fair value through profit or loss of RMB1,383,000,000 and disposed of financial assets at fair value through profit or loss of RMB1,383,000,000, with a gain on disposal of RMB7,414,000 recognised in profit or loss.

The Group did not have any financial liabilities measured at fair value through profit or loss as at 31 December 2019 (2018: 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 and other 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.

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 and other borrowings at floating rate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2019, it was estimated that if interest rates at those dates had been 100 (2018: 100) basis points higher/lower, with all other variables held constant, there would have been a decrease/increase of RMB896,000 (2018: RMB427,000) in the Group's profit before tax and a decrease/increase of RMB896,000 (2018: RMB427,000) in the Group's equity for the year ended 31 December 2019 (through the impact on floating rate borrowings).

40. Financial Risk Management Objectives and Policies (Continued)

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$. The Group also had bank and other borrowings denominated in HK$. 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.

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 RMB676,000 (2018: RMB467,000) and decreased/increased the Group's equity by RMB29,020,000 (2018: RMB23,403,000) during the year ended 31 December 2019.

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

The tables below show 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.

As at 31 December 2019

	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*	–	–	–	185,718	185,718
Bills receivable	89,353	–	–	–	89,353
Financial assets included in prepayments, other receivables and other assets					
– Normal**	45,872	–	–	–	45,872
Pledged deposits					
– Not yet past due	95,000	–	–	–	95,000
Cash and cash equivalents					
– Not yet past due	599,063	–	–	–	599,063
Time deposits					
– Not yet past due	220,000	–	–	–	220,000
	1,049,288	–	–	185,718	1,235,006

40. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2018

	12-month ECLs		Lifetime ECLs		
	Stage1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	183,621	183,621
Bills receivable	52,967	–	–	–	52,967
Financial assets included in prepayments, 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 19.*

** *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".*

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 19 to the financial statements.

40. Financial Risk Management Objectives and Policies (Continued)

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 interest-bearing bank and other borrowings. 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:

At 31 December 2019

	Within one year or on demand *RMB'000*	**In the second year** *RMB'000*	**Total** *RMB'000*
Lease liabilities	**1,010**	**392**	**1,402**
Interest-bearing bank and other borrowings	**89,578**	**–**	**89,578**
Trade and bills payables	**78,553**	**–**	**78,553**
Financial liabilities included in other payables and accruals	**59,454**	**–**	**59,454**
	228,595	**392**	**228,987**

At 31 December 2018

	Within one year or on demand *RMB'000*	In the second year *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	82,671	–	82,671
Trade and bills payables	54,720	–	54,720
Financial liabilities included in other payables and accruals	77,619	–	77,619
	215,010	–	215,010

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 2019 and 2018.

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 and other borrowings and lease liabilities (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 and lease liabilities by the total equity. The gearing ratio and debt-to-equity ratio as at the end of the reporting periods were as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000 (note)	31 December 2018 RMB'000
Interest-bearing bank and other borrowings *(note 25)*	**89,578**	82,671	82,671
Lease liabilities *(note 26)*	**1,402**	255	–
Less: Cash and cash equivalents	**(599,063)**	(504,884)	(504,884)
Pledged deposits	**(95,000)**	(85,000)	(85,000)
Time deposits	**(220,000)**	(130,000)	(130,000)
Net cash	**(823,083)**	(636,958)	(637,213)
Adjusted capital	**2,772,442**	2,801,580	2,801,580
Gearing ratio	**N/A**	N/A	N/A
Total equity	**2,776,427**	2,814,266	2,814,266
Debt-to-equity ratio	**3.3%**	2.9%	2.9%

Note: The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018.

41. Subsequent Event

The outbreak of COVID-19 was first reported in Wuhan, China in December 2019 and since then COVID-19 has spread out globally. It has brought additional uncertainties in the Group's operating environment and may impact on the Group's operations and financial position. The Group has been closely monitoring the impact from the CoVID-19 on the Group's business and has commenced to put in place various measures. Based on the currently available information, the directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this report. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information becomes available.

Except as disclosed above and in note 17 to the financial statements, the Group does not have other significant subsequent events.

42. Comparative Amounts

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

43. 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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	184,217	180,190
CURRENT ASSETS		
Amounts due from subsidiaries	248,976	346,096
Prepayments, other receivables and other assets	85	83
Bank balances	798	7,244
Total current assets	249,859	353,423
CURRENT LIABILITIES		
Amounts due to subsidiaries	40,207	39,329
Other payables	883	1,122
Total current liabilities	41,090	40,451
NET CURRENT ASSETS	208,769	312,972
Net assets	392,986	493,162
EQUITY		
Issued capital	27,808	27,842
Reserves *(note)*	365,178	465,320
Total equity	392,986	493,162

43. 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 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 and 1 January 2019	202,204	(408)	172,535	(86,997)	177,986	465,320
Loss for the year	–	–	–	–	(5,694)	(5,694)
Exchange realignment	–	–	–	9,267	–	9,267
Total comprehensive income for the year	–	–	–	9,267	(5,694)	3,573
Share repurchase	–	(1,196)	–	–	–	(1,196)
Cancellation of shares repurchased	(1,569)	1,604	–	–	–	35
Final 2018 dividend and special dividend	(102,554)	–	–	–	–	(102,554)
At 31 December 2019	98,081	–	172,535	(77,730)	172,292	365,178

These reserve accounts comprise the Company's reserves available for distribution amounting to RMB270,373,000 (2018: RMB379,782,000).

43. 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 2018	255,708	–	195,879	212,669	664,256
Loss for the year	–	–	–	(5,910)	(5,910)
Total comprehensive loss 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 and 1 January 2019	128,342	(484)	195,879	206,759	530,496
Loss for the year	–	–	–	(6,467)	(6,467)
Total comprehensive income for the year	–	–	–	(6,467)	(6,467)
Share repurchase	–	(1,369)	–	–	(1,369)
Cancellation of shares repurchased	(1,812)	1,853	–	–	41
Final 2018 dividend and special dividend	(116,297)	–	–	–	(116,297)
At 31 December 2019	10,233	–	195,879	200,292	406,404

These reserve accounts comprise the Company's reserves available for distribution amounting to HK$210,525,000 (2018: HK$334,617,000).

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

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 re-presented below.

The summary below does not form part of the audited financial statements.

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Year ended 31 December					
RESULTS					
REVENUE	997,500	899,016	1,007,991	980,617	1,054,565
Cost of sales	(765,312)	(586,470)	(767,303)	(687,542)	(588,713)
Gross profit	232,188	312,546	240,688	293,075	465,852
Other income and gains, net	60,044	36,836	34,942	88,473	41,016
Selling and distribution expenses	(35,425)	(39,686)	(43,621)	(32,506)	(11,660)
Administrative expenses	(167,272)	(202,630)	(158,054)	(177,898)	(140,372)
Finance costs	(1,678)	(3,545)	(8,726)	(15,927)	(17,700)
Share of profit and loss of an associate	(4,002)	(7,430)	102	–	–
PROFIT BEFORE TAX	83,855	96,091	65,331	155,217	337,136
Income tax expense	(17,262)	(24,907)	(8,965)	(21,565)	(51,558)
PROFIT FOR THE YEAR	66,593	71,184	56,366	133,652	285,578
Profit attributable to:					
Owners of the Company	75,444	80,259	68,794	154,163	291,390
Non-controlling interests	(8,851)	(9,075)	(12,428)	(20,511)	(5,812)
	66,593	71,184	56,366	133,652	285,578
As at 31 December					
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	3,083,502	3,117,666	3,293,956	3,503,845	3,694,004
TOTAL LIABILITIES	(307,075)	(303,400)	(445,537)	(608,569)	(823,509)
NON-CONTROLLING INTERESTS	(3,985)	(12,686)	(20,999)	(71,579)	(89,746)
	2,772,442	2,801,580	2,827,420	2,823,697	2,780,749