



# Shenguan Holdings (Group) Limited

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

## ANNUAL REPORT 2021



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### Executive Directors

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

### Non-executive Director

Dato' Sri Low Jee Keong

### Independent Non-executive Directors

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

### Company Secretary

Mr. Ng Yuk Yeung *FCCA CPA CFA*

### Legal Advisor as to Hong Kong Laws

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

### Registered Office

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

### Headquarter

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

### Mainland Office

No. 39 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*  
Registered Public Interest Entity Auditor  
27/F One Taikoo Place  
979 King's Road  
Quarry Bay  
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

29 March 2022  
Announcement of 2021 Annual Results

26 May 2022 to 31 May 2022 (both days inclusive)  
Closure of Register of Members  
(for determining the eligibility to attend the Annual General Meeting)

31 May 2022  
Annual General Meeting

7 June 2022 to 10 June 2022 (both days inclusive)  
Closure of Register of Members  
(for determining the eligibility to receive the final dividend)

On or around 30 June 2022  
Final Dividend Payment Date

## Registrar & Transfer Offices

Principal:  
Suntera (Cayman) Limited  
Suite 3204, Unit 2A  
Block 3, Building D  
P.O. Box 1586, Gardenia Court  
Camana Bay, Grand Cayman  
KY1-1100, 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 2021  
3,230,480,000 shares

Market capitalization as at 31 December 2021  
HK\$1,372,954,000

Basic earnings per share for 2021  
Full year RMB3.8 cents

Total dividend per share for 2021  
Full year HK6.0 cents

## Enquiries Contact

Wonderful Sky Financial Group Holdings Limited

Email: [shenguan@wsfg.hk](mailto:shenguan@wsfg.hk)

## Website

[www.shenguan.com.hk](http://www.shenguan.com.hk)



## 4 | FINANCIAL HIGHLIGHTS

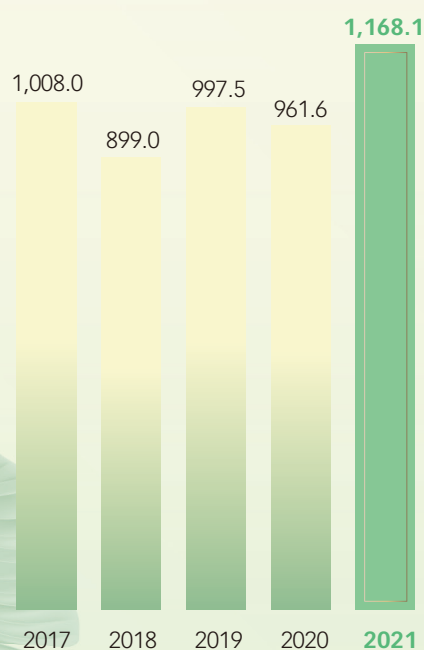
### Financial and Operating Summary for the Year ended 31 December

(RMB million, except where otherwise stated)	2021	2020	Change
Revenue	<b>1,168.1</b>	961.6	+21.5%
Profit attributable to owners of the Company	<b>122.7</b>	90.8	+35.1%
Basic earnings per share (RMB cents)	<b>3.8</b>	2.8	+35.7%
Dividend per share (HK cents)			
– Final	<b>2.0</b>	2.0	–
– Special (Final)	<b>4.0</b>	4.0	–
Net cash flows from operating activities	<b>179.7</b>	443.1	-59.4%
Total assets	<b>3,312.1</b>	3,130.2	+5.8%
Inventory turnover day – Raw materials (days)*	<b>37.4</b>	38.0	-0.6 days
Inventory turnover day – Finished goods & Work in progress (days)*	<b>159.6</b>	197.3	-37.7 days
Trade receivables turnover day (days)*	<b>56.0</b>	84.2	-28.2 days
Trade payables turnover day (days)*	<b>87.1</b>	118.5	-31.4 days

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

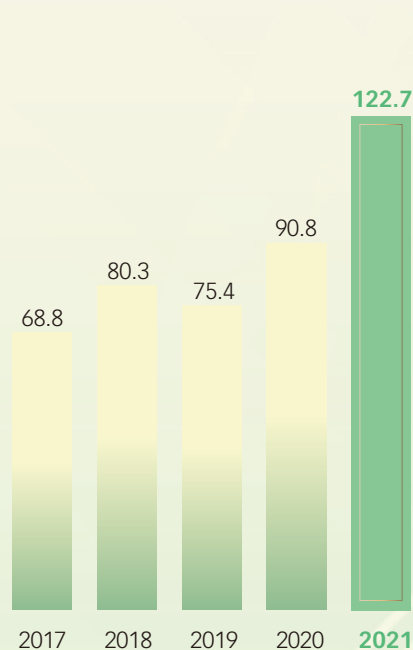
#### Turnover

RMB million



#### Profit attributable to Owners of the Company

RMB million



*"In 2021, the Group made some achievements in new products development, with the gradual expansion in markets for new products of collagen sausage casings, including small-sized diametrical casings, large-sized diametrical casings and imitated high-end natural casings. In addition to collagen sausage casings, the Group also achieved certain growth in other new products. The industrial layout of "Three Developments and One Core" underpinned in the past is expected to inject greater growth momentum into the Group. In 2021, the Group also set off its economic benefits from the trough and achieved significant improvement."*



**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 2021 (the "Year") of the Company and its subsidiaries (collectively referred to as the "Group").**

2021 marked the inaugurate year of the "Fourteenth Five-Year Plan" of the People's Republic of China (the "PRC"), and it was also an extraordinary year for the continuous and restorative growth of the PRC economy. During the year under review, despite the impact of the global COVID-19 epidemic, the overall domestic economic situation in the PRC showed a steady and restorative growth momentum. The meat industry gradually recovered and brought new opportunities for the development of the middle and upstream industries, and the collagen sausage casings industry also showed a better development trend than last year. Particularly, with the favourable national policies and adjustment in economic strategies, the collagen industry chain deployment of the Group experienced a promising prospect. However, the objective issues such as the demand for raw material supply, rising labour costs, and logistics constraints still pose enormous challenges to the Group. During the Year, the Group overcame the impact of unfavourable factors brought by global epidemic and rising raw material prices, with the principal product of collagen sausage casings maintained its leading position in the PRC, and hit a new high over the past five years in terms of casings sales and revenue, achieving a good start in the "Fourteenth Five-Year Plan".

During the Year, the Group focused on the guiding philosophy of “seizing opportunities to promote new products and making new achievements in product diversification in an all-round manner” to continue expanding the collagen sausage casings market by maintaining the stable quality of casings, adjusting marketing strategies and keeping pace with the market development. In addition, the Group also accelerated the automation transformation of machinery and equipment to improve production efficiency, and fully started the production and sales of new products, promoting the Group’s development in diversifying collagen products.

During the Year, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司), a core subsidiary of the Group, officially changed its name to Guangxi Shenguan Collagen Biological Group Co., Ltd. (廣西神冠膠原生物集團有限公司). With the development from Wuzhou Shenguan to Guangxi Shenguan, from collagen sausage casings to collagen biology, from a single casing product to the grand health industry layout of “Three Developments and One Core”, including collagen food products, collagen skincare products and collagen medical devices, the Group achieved an all-round and multifaceted growth by leveraging on technological innovation and industrial layout.

During the Year, the Group also established Guangxi Shenguan Collagen Technology Research Institute (廣西神冠膠原蛋白技術研究院), and established a Joint Research and Development Centre for Synthetic Biology Technology (合成生物學技術聯合研發中心) with Huazhong University of Science and Technology, making scientific and technological contributions to facilitate the innovative development of bio-industry and green economic growth through focusing on our collagen technologies and cooperating with school-enterprise to provide a series of technical services including research and development, trial, testing and results transformation for our new products in the future, and offering strong technical support for achieving the planned targets by the Group.

2022 is the second year of the “Fourteenth Five-Year Plan” implementation by the Group. We will focus on the guiding philosophy of “strengthening core to supplement production capacity and promoting the high-quality development of the three major sectors”. In 2022, the Group expects the epidemic will still pose impact on the global economy, and we will also face pressures such as rising raw material prices, rising transportation costs, and higher requirements for product applicability of the Group’s products due to customer products transformation and upgrading. Against the complicated economic environment, the Group remains confident and determines to improve the production and operation in 2022.

On one hand, the promulgation of various policies and measures on maintaining economic stability and development by the central and local governments of the PRC allow a continuous upturn in domestic economic environment, which is more favourable to the development of the grand health industry of the Group. On the other hand, over the past few years, the Group has actively adjusted our development strategy and made relentless efforts to implement diversification development. In 2021, the Group made some achievements in new products development, with the gradual expansion in markets for new products of collagen sausage casings, including small-sized diametrical casings, large-sized diametrical casings and imitated high-end natural casings. In addition to collagen sausage casings, the Group also achieved certain growth in other new products. The industrial layout of “Three Developments and One Core” underpinned in the past is expected to inject greater growth momentum into the Group. In 2021, the Group also set off its economic benefits from the trough and achieved significant improvement.

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 shareholders.

**Ms. Zhou Yaxian**  
*Chairman and President*

Hong Kong, 29 March 2022



## MARKET REVIEW

During the year ended 31 December 2021 (the “Year”), the outbreak of COVID-19 epidemic ravaged the world, and the world economy was subject to uncertainties. Facing acute external environment, on one hand, the People’s Republic of China (the “PRC”) took active measures to prevent and control the epidemic, while on the other hand, it actively implemented fiscal policy and prudent monetary policy to accelerate the development strategy of domestic and international dual circulation. Driven by a number of measures, China’s economy continued to regain its growth momentum, and major macroeconomic indicators were within a reasonable range overall.

According to the preliminary verified data of the National Bureau of Statistics of the PRC, in 2021, China’s economy remained stable, with gross domestic products of RMB114.4 trillion, grew by 8.1% as compared with that of 2020 (the “Prior Year”) on a constant base price basis, achieving the full-year growth target of over 6% set at the beginning of the year. The scale of market sales continued to expand, and sales of basic necessities and upgrade products grew rapidly. Total retail sales of consumer goods for the year reached RMB44.1 trillion, grew by 12.5% as compared with that of the Prior Year. The output of pork, beef, mutton and poultry for the year was 88.87 million tons, increased by 16.3% as compared with that of the Prior Year, among which pork output was 52.96 million tons, increased by 28.8%. The recovery of the economy as well as the growth of market consumption have driven the continuous growth momentum in the demand for collagen sausage casings market in the PRC.

## BUSINESS REVIEW

### Collagen Sausage Casings

During the Year, the Group focused on the guiding philosophy of “seizing opportunities to promote new products and making new achievements in product diversification in an all-round manner” and continued to take stabilizing the quality of collagen sausage casings products as its top priority. The Group implemented the accountability system and supervision system from production segment to sales segment for stringent management of food production site environment to ensure the normal operation of facilities and equipment as well as proper production operation, so as to guarantee product quality. On the other hand, the Group also adjusted its marketing strategies to actively expand the collagen sausage casings market and fully started the production and sales of new products, and speeded up the automation transformation of machinery and equipment to improve production efficiency. In terms of internal management, the Group continued to strengthen management awareness and clarify management responsibilities, implement and enhance supervision and standardise behaviours, and strive to “seize opportunities to improve quality and efficiency”.



During the Year, the Group continued to perform its safety production measures well in accordance with the epidemic prevention and control requirements to ensure that all production segments were implemented in accordance with the epidemic prevention and control requirements. At the same time, the Group paid close attention to product quality, actively absorbed feedback and improved service quality to ensure the quality stability of key customers and casing products, so as to promote the sales of new products. The imitated high-end natural casing products developed by the Group have gradually gained consumer recognition. In addition, the Group also expanded the range of calibre of the casings supply from 13mm-50mm to 10mm-50mm and the sales volume of casings increased substantially as compared with that of 2020, which hit a record high over the past five years and strengthened the confidence and determination of the Company to continue developing new products.



### Other Products

The Group is committed to stepping up the development of its collagen technologies, with an aim to establish a safe, reliable and standardised grand health industry. The move will also upgrade and transform the collagen industry and proactively promote the application of collagen in the grand health industry. The Group strived to promote the research and development of new technologies and new products in our previous layout of the grand health industry, including various sectors covering collagen food products, collagen skincare products and collagen medical devices, and also market expansion, with the results gradually emerging.

For collagen food products, with the gradual introduction of new products such as collagen rice noodles, collagen drinks, bovine collagen and beef tendon to the market, they also gained wide recognition from consumers. The collagen oatmeal, newly developed by the Group, also attracted customers' attention when launched and it is expected that the market of this product will have more promising prospect.

For collagen skincare products, the Group further improved the quality of skincare products, continuously upgraded product formula, and changed its marketing strategies according to market development trend and adopted an online-oriented marketing strategies supplemented by offline marketing to promote the sales of collagen masks, collagen extracts and collagen superior, and gradually gained consumer recognition.

For collagen medical devices, Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") and Wuzhou Victory Biotech Co., Ltd. ("Wuzhou Victory") have obtained the dual certification of ISO13485 and ISO22442 from the European Union. Guangdong Victory has filed to the Guangdong provincial authorities regarding the corporate standards on six products including Fibrous Type I Collagen (Q/SCSW2-2017), Medical Soluble Type I Collagen (Q/SCSW3-2017) and Collagen Wound Dressing (Q/SCSW4-2017). Wuzhou Victory also obtained the production permits for 2 Type I medical device products, including "band-aids" and "liquid dressing".

We completed the installation of the "band-aids" production equipment, the Type I medical device products of the Group, with successful trial production, and the registration of "disposable sterile dressing", the Type II medical device products, is in the process. The clinical trials of "collagen bone filling biomaterials (artificial bone)" (膠原蛋白骨填充材料(人工骨)) are in progress in several hospitals. The "medical beauty product (small beauty needle)" (醫美產品(小美容針)) has been successfully developed, tests of safety indicators are underway and clinical trials will be carried out.





For healthcare products, the market channel building of Ferguson (Wuhan) Biotech Co., Ltd. ("Ferguson Wuhan"), in which the Group has equity interests, continued to achieve results and gradually expanded the market for many new products. During the Year, Ferguson Wuhan recorded decrease in losses, with a share of loss of approximately RMB1,400,000 during the Year, as compared to approximately RMB2,400,000 for the Prior Year.

### Honours of the Group

During the Year, the Group was honoured with many awards, including the collagen sausage casings of the Group was awarded the "STC tested Mark" issued by Hong Kong Standards and Testing Centre, "Guangxi Most Competitive Private Enterprise of 2021" (2021廣西最具競爭力民營企業), "The 54th Place in Guangxi Top 100 Private Manufacturers of 2021" (2021廣西民營企業製造業100強第54名) issued by Guangxi Zhuang Autonomous Region Federation of Industry and Commerce, one of the awardees of the "First Batch of Single Champion Enterprises in the Manufacturing Industry in Guangxi" (廣西第一批製造業單項冠軍企業) and also the "Smart Factory and Digital Workshops in Guangxi" (廣西智慧工廠數位化車間) selected by Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region, "The 16th Place in Guangxi Top 100 High-Tech Enterprises" (廣西高新技術企業百強第16名) evaluated by Guangxi High-Tech Enterprises Association as well as the "Listed Company Awards of Excellence 2021" (上市公司卓越大獎2021) by Hong Kong Economic Journal in recognition of the outstanding performance of the Group.

### Patents

As at 31 December 2021, the Group had the following patents:

	<b>Total number of patents granted</b>	<b>Within the validity period</b>	<b>Accepted and pending approval</b>
National Intellectual Property Administration of the PRC	104	74	12
Taiwan Intellectual Property Office	2	2	–
United States Patent and Trademark Office	1	1	–
Intellectual Property Office of Singapore	1	1	–
<b>Total</b>	<b>108</b>	<b>78</b>	<b>12</b>

### Quality Control

The Group strictly controls every production step to ensure its products are of the best quality and have complied 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 Food and Drug Administration in the United States for export of sausage casing products to the United States. In addition, the production of all the Group's sausage casing products have strictly complied with the PRC's national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are the recognition of the Group as a trustworthy product supplier to its customers.

Guangxi Wuzhou Zhongguan Testing Technology Services Co., Ltd. ("Wuzhou Zhongguan"), a subsidiary of the Group, is able to examine over 800 indicators, including physicochemical indicators such as heavy metals and microelements, pesticide residues, microorganisms and proteins. Currently, Wuzhou Zhongguan continues to independently undertake third-party inspection assignments, undertake various food and relevant product testing services and issue officially recognised testing reports, delivering external sales revenue. Such qualifications recognition 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 grand health industry.



### Customer Relationship

The Group is committed to developing long-term cooperation relationships based on mutual trust with its business partners and has built a 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. On the basis of stabilizing existing customers, the Group continued to solicit new customers and had achieved good results.

### Supply of Raw Materials

Cattle inner skin is a major raw material for collagen sausage casing production. The supply of cattle inner skin remained stable over the past few years 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 (the local issuing authority of the China Food and Drug Administration (國家食品藥品監督管理總局) where Guangxi Zhiguan is located) with a valid period until November 2022.

## FINANCIAL ANALYSIS

### Revenue

Revenue increased by approximately 21.5% to approximately RMB1,168.1 million for the Year from approximately RMB961.6 million in the Prior Year. The increase was mainly due to the gradual control of the epidemic in China and the recovery of the economy. In addition, the new products of imitated high-end natural casings developed by the Group have gradually been recognised by the majority of customers, and the sales volume of casings increased significantly as compared with the Prior Year.

### Cost of sales

Cost of sales increased by approximately 18.7% to approximately RMB857.6 million for the Year from approximately RMB722.6 million for the Prior Year, including the net reversal of provision and write-off of inventory of approximately RMB1.8 million, as compared to the provision and write-off of approximately RMB26.0 million for the Prior Year. Excluding such items, the cost of sales for the Year increased by approximately 23.4% as compared to the Prior Year. During the Year, the sales volume of sausage casings increased significantly compared with the Prior Year, and the corresponding cost of sales also increased accordingly. Compared with the Prior Year, the costs of raw materials for the Year increased by approximately 30.8% to approximately RMB419.7 million as compared with that of the Prior Year. In addition, the charges for energy increased by approximately 15.6% to approximately RMB169.9 million. The direct labour costs increased by approximately 26.7% to approximately RMB151.7 million.



### Gross profit

Gross profit increased by approximately 29.9% to approximately RMB310.5 million for the Year from approximately RMB239.0 million for the Prior Year. Gross profit margin increased to approximately 26.6% for the Year from approximately 24.9% for the Prior Year.

### Other income and gains

Other income and gains decreased by approximately 24.2% to approximately RMB53.6 million for the Year from approximately RMB70.6 million for the Prior Year, primarily because the Group received subsidies of approximately RMB8.4 million in total from the PRC government during the Year as compared to approximately RMB30.6 million over the Prior Year, the main reason for receiving subsidies for the Prior Year was that, during the period of the COVID-19 epidemic in 2020, the Group received employment stabilisation subsidies for continuing the production during Chinese New Year and obtained unemployment insurance emergency rebates to stabilise employment.

### Selling and distribution expenses

Selling and distribution expenses increased by approximately 12.0% to approximately RMB36.6 million for the Year from approximately RMB32.7 million for the Prior Year. Selling and distribution expenses as a percentage of revenue decreased to approximately 3.1% for the Year from approximately 3.4% for the Prior Year.

### Administrative expenses

Administrative expenses decreased by approximately 3.7% to approximately RMB157.7 million for the Year from approximately RMB163.7 million for the Prior Year. The Group phased out equipment with lower production efficiency for the Year, and therefore recorded related losses approximately RMB10.2 million in total, compared to approximately RMB7.6 million for the Prior Year. In addition, due to the fact that the Group's balance of trade receivables at the end of 2021 was higher than that at the end of 2020 and the tightened global credit environment during the Year, the provision for expected credit losses during the Year also increased, and the impairment of trade receivables increased to approximately RMB13.3 million for the Year from approximately RMB4.5 million for the Prior Year.

For the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets have been amortised over five years, and these intangible assets were fully amortised in the third quarter of 2020. The related amortisation expense was approximately RMB35.9 million for the Prior Year. After deducting the non-controlling interests and deferred tax effect of Guangdong Victory, the effect of the related amortisation expense on the net profit

attributable to owners of the Group for the Prior Year was approximately RMB21.6 million.



### Finance costs

Finance costs increased by approximately 114.0% to approximately RMB5.3 million for the Year from approximately RMB2.5 million for the Prior Year, which was mainly attributable to the increase in bank borrowings.

### Share of loss of an associate

During the Year, the loss of Ferguson Wuhan decreased, recording a share of loss of approximately RMB1.4 million for the Year as compared to approximately RMB2.4 million for the Prior Year.

### Income tax expenses

Income tax expenses were approximately RMB43.0 million for the Year, as compared to approximately RMB21.7 million for the Prior Year. The Company's major operating subsidiary, Guangxi Shenguan Collagen Biological Group Co., Ltd. (廣西神冠膠原生物集團有限公司) ("Shenguan Collagen") (formerly known as Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司)) enjoys a preferential tax treatment due to its location in western China and fall into the industry category encouraged by government policies. The applicable tax rate for Wuzhou Shenguan is 15%.

The effective tax rates applied to the Group were approximately 20.0% and approximately 26.4% of profit before tax for the Prior Year and for the Year, respectively. The higher effective tax rates for the Prior Year and for the Year than the applicable tax of major operating subsidiary was mainly due to the provision of dividend withholding tax and losses recorded by some subsidiaries of the Group.

### Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Year was approximately RMB2.6 million, which mainly represented the loss attributable to the non-controlling interests in Guangdong Victory.

### Profit attributable to owners of the Company

As stipulated in the aforesaid reasons, profit attributable to owners of the Company increased by approximately 35.1% to approximately RMB122.7 million for the Year from approximately RMB90.8 million for the Prior Year.

## Liquidity and Capital Resources

### Cash and bank borrowings

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

As at 31 December 2021, cash and cash equivalents together with pledged deposits and time deposits amounted to approximately RMB1,359.4 million, representing an increase of approximately RMB182.5 million from the end of 2020 (31 December 2020: approximately RMB1,176.9 million). Among these balances, approximately 95.9% was denominated in Renminbi, and the remaining 4.1% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 31 December 2021, total bank borrowings of the Group amounted to approximately RMB418.2 million, representing an increase of approximately RMB269.8 million (31 December 2020: approximately RMB148.4 million), and all bank borrowings were wholly repayable within one year. Total bank borrowings denominated in RMB was approximately RMB205.0 million, total bank borrowings denominated in U.S. dollars was approximately US\$20.6 million (equivalent to approximately RMB131.4 million), and total bank borrowings denominated in Hong Kong dollars was HK\$100.0 million (equivalent to approximately RMB81.8 million).

The Group was in a net cash position (cash and cash equivalents together with pledged deposits and time deposits less total bank borrowings) of approximately RMB941.2 million as at 31 December 2021, representing a decrease of approximately RMB87.3 million as compared to that at the end of 2020. The debt-to-equity ratio was 16.1% as at 31 December 2021 (as at 31 December 2020: 5.6%). The debt-to-equity ratio was calculated by dividing the total bank borrowings and lease liabilities by the total equity.



**Derivative financial instruments**

During the Year, in order to control interest rate risk, the Group entered into an interest rate swap contract with a bank for a bank loan with a principal of HK\$100.0 million. The notional principal of the contract was HK\$100.0 million, which swapped HIBOR with a fixed interest rate. As at 31 December 2021, the fair value of the contract was a liability of approximately RMB119,000.

During the Year, in order to control the exchange rate risk, the Group entered into a forward foreign exchange contract with a bank for a bank loan with a principal of US\$7.8 million, and sold RMB and buy US dollars at a fixed forward exchange rate, so as to pay the principal and interest of the US dollar loan at maturity. As at 31 December 2021, the fair value of the contract was a liability of approximately RMB1.4 million.

**Cash flows**

During the Year, the net cash inflow of approximately RMB179.7 million and RMB104.2 million were generated from operating activities and financing activities, respectively, while investing activities utilised approximately RMB212.2 million. The net cash outflow from investing activities was mainly attributable to the cash outflow from increase in pledged time deposits, increase in time deposits with original maturity of more than three months when acquired, and the acquisition of land, property, plant and equipment. The net cash inflow from financing activities was mainly attributable to the combined effects of new bank loans and the repayment of bank loans, and the payment of final dividend for the year of 2020.

**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.

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

**Capital expenditure**

The capital expenditure of the Group during the Year amounted to approximately RMB129.7 million, which was mainly used for the acquisition of land, property, plant and equipment, and the capital commitments as at 31 December 2021 amounted to approximately RMB128.5 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2022 amounted to approximately RMB100.0 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business to increase productivity, 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 2021, pledged bank deposits amounted to approximately RMB205.0 million in total.

**Contingent liabilities**

As at 31 December 2021, the Group was not aware of any material contingent liabilities.

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

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

### Events after the Year

There were no important events affecting the Group that have occurred since 31 December 2021.

### Human Resources

As at 31 December 2021, the Group hired a total of approximately 2,650 contract employees (as at 31 December 2020: 2,530). During the Year, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB192.9 million (Prior Year: approximately RMB170.7 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

The Central Economic Work Conference of the PRC emphasised that the economic works in 2022 should prioritise stability while pursuing progress. Macroeconomic policies must be sound and effective, which should well implement the strategy of expanding domestic demand, continue to facilitate consumption recovery, and actively expand effective investment, so as to enhance the endogenous driving force for development. Micro-policies should stimulate the vitality of market players. Structural policies should focus on streamlining national economic cycle, enhancing core competitiveness of manufacturing industry, and enhancing supply chain resilience. In 2021, the Guangxi government also promulgated policies and measures such as Three-year Action Plan for Promoting Industrial Revitalization (《關於推進工業振興三年行動方案》), Certain Policies and Measures for Promoting Industrial Revitalization (《關於推進工業振興若干政策措施》), and Catalogue of Industries Encouraged to Develop in the Western Region (《西部地區鼓勵類產業目錄》). The Wuzhou Municipal Government also launched the activity of promoting industrial revitalization and the "Three-Year Three Projects". Such policies and measures have released a strong signal to accelerate industrial development. Moreover, as the sausages industry in domestic market develops high-end products, the demand for imitated high-end natural casings is gradually increasing, by virtue of which the Group will usher in a good opportunity for a new round of development.

Looking ahead into 2022, with the deepening in reform and opening up and the accelerated construction of a new development pattern of domestic and international dual circulation, the vibrancy of China's economy will continue to enhance, the overall momentum of macroeconomy shall remain stable and positive, and the policy of stable growth is expected to promulgate continuously. However, at the same time, with the COVID-19 epidemic still widely spreads all over the world, increasingly complicated, severe and uncertain external environment, and the triple major burdens of shrinkage in demand, supply shock and weakening expectations on domestic economy, the fiscal policy, monetary policy and industrial policy are expected to focus on stabilizing economic development, with opportunities and challenges coexist in the market.

As stated in the "Chairman's Statement" section, the Group is optimistic about 2022 and has confidence and determination to perform well in production and operation in 2022. The Group will focus on the guiding philosophy of "strengthening core to supplement production capacity and promoting the high-quality development of the three major sectors". The industrial layout of "Three Developments and One Core" constructed by the Group will continue to be based on collagen sausage casings, with collagen food, collagen skin care products and collagen medical devices as the main development directions.

The Group will carry out its work by centering on “stabilising quality, expanding new products and maintaining production capacity” in the collagen sausage casings industry. Firstly, the Group will continue to focus on product quality stability, and establish a preventive mechanism in future. Secondly, the Group will accelerate the transformation and improvement of the production line of imitated high-end natural casings, solve the bottleneck problem of key processes to increase its production capacity, and increase the sales ratio of new products such as imitated high-end natural casings, large-sized diametrical and small-sized diametrical casings to meet the needs of the sausages industry to adjust the product structure. Thirdly, the Group will accelerate the progress of automation and intelligent projects, further improve the automation standard of existing production lines to reduce dependence on human resources and improve production efficiency, and continue to upgrade environmental protection equipment and facilities, so that the capacity of environmental protection processing can keep pace with production needs. Fourthly, the Group will further improve the quality of enterprise management to reduce costs and increase economic benefits.

For collagen food products, the Group will continue to improve the equipment and supporting facilities required for the mass production of various products including collagen oatmeal and collagen rice noodles. At the same time, the Group will also adjust the marketing strategy and expand the marketing team, and strive to achieve better performance.

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

For collagen medical devices, the Group will further intensify the research on medical collagen to produce products with higher purity, better activity and lower cost. The Group will promote the clinical trial of the Type III medical device of the “collagen bone filling biomaterials (artificial bone)” (膠原蛋白骨填充材料(人工骨)), and endeavour to enter clinical trials of “medical beauty product (small beauty needle)” (醫美產品(小美容針)) and “Collagen Wound Dressing” (膠原蛋白傷口敷料) as soon as possible. Other collagen medical device products that have been approved for production are expected to be put into mass production in 2022.

Finally, the Shenguan team will continue to endeavour and propel the continuous growth of grand health industry of Shenguan 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 for the Year are based on the code provisions as set out in the Corporate Governance Code (the "Code") version up to 31 December 2021, which contained 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 Code (version up to 31 December 2021) contained in Appendix 14 to the Listing Rules during the Year.

The Board will adopt the new CG Code (version with effect from 1 January 2022), the requirements under which shall apply to the Company's corporate governance report in the forthcoming financial year ending 31 December 2022.

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

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.

## DELEGATION BY THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The senior management has been delegated with the authority and responsibility by the Board for overseeing the management and administration of the Group. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transaction entered into by the management.

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.

## Board Meetings and Attendance

The Board shall meet regularly and at least four times a year at approximately quarterly intervals. During the Year, the Board held five 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:

	<b>Attendance/ Number of meetings held</b>
Ms. Zhou Yaxian ( <i>Chairman and President</i> )	4/5
Mr. Shi Guicheng	5/5
Mr. Ru Xiquan	5/5
Mr. Mo Yunxi	5/5
Dato' Sri Low Jee Keong	5/5
Mr. Tsui Yung Kwok	5/5
Mr. Meng Qinguo	5/5
Mr. Yang Xiaohu	4/5

## 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.

As there is no relationship in respect of any financial, business, family or other material relevant aspects between the Independent non-executive Directors (including their close associates) and the senior management, substantial shareholders or controlling shareholders of the Company, the nomination committee is of the view that all the Independent non-executive Directors are regarded as independent.

## Chairman and Chief Executive

Under code provision A.2.1 of the Code (which has been re-numbered as code provision C.2.1 since 1 January 2022), 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 2021 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 2021 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 2021 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.

During the Year and at the date of this report, the Board has eight Directors, one of which is a female. The Board reviews the implementation and effectiveness of the Board Diversity Policy on an annual basis.

## 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 during the Year.

## Corporate Governance Duties

The Board is responsible for performing the corporate governance duties as set out in code provision D.3.1 (which has been re-numbered as code A.2.1 since 1 January 2022) 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 reviewed the final results for the year ended 31 December 2020, the interim results for the six months ended 30 June 2021 of the Group and the Group's internal controls for the year ended 31 December 2020. The Group's final results for the Year has been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee has also reviewed this annual report, and confirmed that this annual report is complete and accurate, and has complied with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

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

	<b>Attendance/ Number of meetings held</b>
Mr. Tsui Yung Kwok ( <i>Chairman</i> )	3/3
Mr. Meng Qinguo	3/3
Mr. Yang Xiaohu	2/3

## Auditors' Remuneration

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

Type of services	Fee paid/payable RMB'000
Non-audit services ( <i>Note</i> )	706
Audit services	2,180
	2,886

*Note:* Non-audit service mainly represent interim review and taxation services.

## 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 an executive Director, namely Ms. Zhou Yaxian, 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, considering the nomination and re-election of the Directors in the annual general meeting 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 two meeting during the Year. Details of the attendance of the Nomination Committee meeting are as follows:

	Attendance/ Number of meetings held
Ms. Zhou Yaxian ( <i>Chairman</i> )*	1/2
Mr. Meng Qinguo	2/2
Mr. Yang Xiaohu	2/2

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

- \* During the year, there was one nomination committee meeting relating to the appointment of Ms. Zhou Yaxian's son as a vice-president of the Company, Ms. Zhou Yaxian had abstained from attending and voting at this meeting.

## 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, an executive Director, namely Ms. Zhou Yaxian, and two independent non-executive Directors, namely Mr. Meng Qingguo and Mr. Yang Xiaohu. Mr. Meng Qingguo 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 three meeting during the Year. Details of the attendance of the Remuneration Committee meeting are as follows:

	<b>Attendance/ Number of meetings held</b>
Mr. Meng Qingguo ( <i>Chairman</i> )	3/3
Ms. Zhou Yaxian*	2/3
Mr. Yang Xiaohu	3/3

At the meeting, the Remuneration Committee 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 2020 and 2021 and the performance of the Directors.

- \* During the year, there was one remuneration committee meeting relating to the determination of the remuneration of Ms. Zhou Yaxian's son as a vice-president of the Company. Ms. Zhou Yaxian had abstained from attending and voting at this meeting.

## Remuneration of Directors and Senior Management

The Group has paid and accrued the amounts of approximately RMB5,114,000, RMB1,999,000, RMB1,999,000, RMB1,999,000, RMB66,000, RMB208,000, RMB208,000 and RMB208,000 to Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi, Dato' Sri Low Jee Keong, Mr. Tsui Yung Kwok, Mr. Meng Qingguo 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, qualifications and responsibilities assumed by each Director. As at 31 December 2021, 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:

	<b>Number of individuals</b>
HK\$0 to HK\$1,000,000	1
HK\$1,000,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$3,000,000	1

## 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; and the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit, financial reporting functions, as well as those relating to the issuer's ESG performance and reporting. 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 2021 annual general meeting ("2021 AGM") was held on 28 May 2021. The attendance record of the Directors at the 2021 AGM is as follows:

	<b>Attendance/ General Meeting held 2021 AGM</b>
Ms. Zhou Yaxian ( <i>Chairman and President</i> )	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	1/1

The Company's external auditors also attended the 2021 AGM.

## 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 31 May 2022.

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 our Company*

Aged 62, 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 42 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 Guangxi Shenguan Collagen Biological Group Company Limited (廣西神冠膠原生物集團有限公司) ("Shenguan Collagen") (Formerly known as Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司)).

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 58, 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 29 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 Shenguan Collagen since 2004, responsible for machinery and equipment management, production safety and environmental protection. He was appointed as a Director on 19 September 2009.

Aged 59, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 31 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 Shenguan Collagen since 2004, responsible for matters relating to accounting and finance. He was appointed as a Director on 19 September 2009.



**Mr. Ru  
Xiquan**

*Vice President and Executive Director*



**Mr. Mo  
Yunxi**

*Vice President and Executive Director*

Aged 53, Mr. Mo is primarily responsible for the Group's production and corporate management. He has long been engaged in product development and has nearly 29 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 Shenguan Collagen 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 56, Dato' Sri Low's Chinese name 劉子強 is an unofficial name. Dato' Sri Low has nearly 29 years of experience in the collagen sausage casing industry. Before founding the Group, Dato' Sri Low, through Exceltech Food Trading Sdn Bhd (formerly known as Exceltech Enterprise), 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 Shenguan Collagen after the acquisition of the entire ownership rights of Wuzhou Protein Factory by Shenguan Collagen in November 2004. Dato' Sri Low is a founder of the Group and has been a director of Shenguan Collagen 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. 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 53, 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 28 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 to 2004. Mr. Tsui has been the Chief Financial Officer 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 and was the company secretary from 2004 to 1 March 2017. Mr. Tsui has also served as an independent non-executive director of Cabbeen Fashion Limited (Hong Kong stock code: 02030) and Intron Technology Holdings Limited (Hong Kong stock code: 01760) since February 2013 and June 2018, respectively, the shares of which are all listed on the Stock Exchange. Mr. Tsui was an independent non-executive director of 361 Degrees International Limited (Hong Kong stock code: 01361) from September 2012 to 20 May 2019 and was an independent non-executive director of SITC International Holdings Limited (Hong Kong stock code: 01308) from September 2010 to 18 December 2020. 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 64, 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科教學指導委員會委員), director of China Law Society (中國法學會), 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), 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), 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 from January 2015 to January 2018. Mr. Meng was appointed as a Director on 19 September 2009.

### Mr. Yang Xiaohu

Aged 47, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 24 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.



**Mr. Wen  
Jinpei**

*Vice President*

Aged 60, 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 Shenguan Collagen since October 2010.

Aged 35, Mr. Sha is the son of Ms. Zhou Yaxian, our executive director and one of the controlling shareholders of the Company. Mr. Sha obtained a master of science (Technopreneurship and Innovation) from Nanyang Technological University, Republic of Singapore on 1 July 2015. Mr. Sha has been the chief director of 廣州神冠商貿有限公司, a wholly-owned subsidiary of the Company since April 2016 and the chief director of Ferguson (Wuhan) Biotech Co., Ltd (福格森(武漢)生物科技股份有限公司), an associate of the Company since December 2017. Mr. Sha has been promoted as the vice president of the Company with effect from 6 December 2021. Mr. Sha is mainly responsible for assisting Ms. Zhou Yaxian, the chairman of the Company, in the daily management of the operation of the Group and responsible for the planning and marketing of three new products, namely, collagen food, collagen skincare products and collagen medical devices, and the construction and management of the Group's information system.



**Mr. Sha  
Junqi**

*Vice President*



**Mr. Ng  
Yuk Yeung**

*Financial Controller*

Aged 48, 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 26 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 and BGMC International Limited on 11 October 2019 and 3 July 2020, respectively. Mr. Ng attained his bachelor's degree in Computer Science from the University of Hong Kong in November 1995 and is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a CFA Charter holder. Mr. Ng is also the Company Secretary of the Company.



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

## Principal Activities

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

## Business Review

Further discussion and analysis of the activities of the Group for the Year and an indication of likely future developments in the Group's business can be found in the section headed "Management Discussion and Analysis" as set out on pages 8 to 18 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 52 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 shareholders whose names appear on the register of members of the Company on 10 June 2022 (Friday). 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 30 June 2022 (Thursday).

## 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 31 May 2022 (Tuesday), the register of members of the Company will be closed from 26 May 2022 (Thursday) to 31 May 2022 (Tuesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 25 May 2022 (Wednesday). For determining entitlement to the final dividend and the special final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 7 June 2022 (Tuesday) to 10 June 2022 (Friday), both days inclusive. The record date will be 10 June 2022 (Friday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 6 June 2022 (Monday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final 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 128 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 26 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

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 profit of the Company amounted to approximately HK\$200,650,000. The Company's reserves available for distribution comprise share premium 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 2021, the Company had distributable reserves amounting to approximately HK\$135,593,000.

## Charitable Contributions

During the Year, the Group made charitable contributions totalling RMB5,460,000.

## Major Customers and Suppliers

During the Year, sales to the Group's five largest customers accounted for approximately 53.0% of the total sales for the Year and sales to the largest customer included therein amounted to approximately 17.2%. Purchases from the Group's five largest suppliers accounted for approximately 69.3% of total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 46.6%.

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, a vice president of the Company and 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 2021 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 2021 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 2021 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 34 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 2021, the interests and short positions of the Directors and chief executive in the share (the "Shares"), 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

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 ( <i>Note 2</i> )	2,257,628,000 (L)	69.89%
	Beneficial owner	3,144,000 (L)	0.10%
Dato' Sri Low Jee Keong ("Dato' Sri Low")	Interest in a controlled corporation ( <i>Note 3</i> )	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 ( <i>Note 2</i> )	65,454	65.45%
Dato' Sri Low	Rich Top Future	Interest in a controlled Corporation ( <i>Note 3</i> )	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 2021, 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 2021, 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 ( <i>Note 2</i> )	1,936,434,000 (L)	59.94%
Hong Kong Shenguan	Interest in a controlled corporation ( <i>Note 3</i> )	2,185,158,000 (L)	67.64%
	Beneficial owner	72,470,000 (L)	2.24%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse ( <i>Note 4</i> )	2,260,772,000 (L)	69.98%



*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 3,144,000 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 2021, 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, Guangxi Shenguan Collagen Biological Group Company Limited (廣西神冠膠原生物集團有限公司) ("Shenguan Collagen") (Formerly known as Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司)) (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 Shenguan Collagen 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 Shenguan Collagen.

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 2021, 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 adopted a share option scheme (the "Scheme") on 29 May 2020 (the "Adoption Date") 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 shall be valid and effective for a period of ten years commencing on 29 May 2020, 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.

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 Adoption 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 available for issue under the Scheme as at the date of this report was 323,048,000 Shares, which represented 10% of the total number of issued Shares as at the Adoption Date and the date of this report. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

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

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

There is no share option outstanding, granted, exercised, cancelled or lapsed since the adoption of the Scheme.

## Continued Connected Transaction and 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(1) of the Listing Rules) during the Year:

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

On 16 October 2020, the Company entered into a framework agreement (the "Junye Agreement") with Guangxi Wuzhou Junye Trademark Printing Material Co., Ltd. (廣西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 Group for a term of three years from 1 January 2021 to 31 December 2023. The purchases by the Group from Wuzhou Junye Printing Material under the Junye Agreement for the Year amounted to RMB28,041,000 and the annual cap set in the said agreement for the Year was RMB34,750,000.

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, a vice president of the Company and 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 16 October 2020, the Company entered into a framework agreement (the "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 Group for a term of three years from 1 January 2021 to 31 December 2023. The purchases by the Group from Wuzhou Zhongbo Packaging under the Zhongbo Agreement for the Year amounted to RMB6,386,000 and the annual cap set in the said agreement for the Year was RMB8,070,000.



Wuzhou Zhongbo Packaging is owned by Mr. Sha, the spouse of Ms. Zhou, as to 98.33% and by Mr. Sha Junqi, a vice president of the Company and 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 Zhongbo Packaging is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

**(iii) Transactions with Exceltech Food Trading SDN. BHD, Exceltech Global Investment Pte Limited and Exceltech International Trading SDN. BHD.**

On 16 October 2020, the Company entered into a framework agreement (the “Exceltech Agreement”) with Exceltech Food Trading SDN. BHD. (Formerly known as Exceltech Frozen SDN. BHD.) (“Exceltech Food”), Exceltech Global Investment Pte Limited (優良國際投資有限公司) (“Exceltech Global”) and Exceltech International Trading SDN. BHD. (Formerly known as Exceltech International SDN. BHD.) (“Exceltech International”), pursuant to which the Group agreed to supply collagen sausage casing products, collagen piece facial mask, food and drink products and organic fertilizers to Exceltech Food, Exceltech Global and Exceltech International for a term of three years from 1 January 2021 to 31 December 2023. The sales from the Group to Exceltech Food, Exceltech Global and Exceltech International under the Exceltech Agreement for the Year amounted to RMB4,787,000 and the annual cap set in the said agreement for the Year was RMB7,000,000.

Exceltech Food 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 International is owned by Dato’ Sri Low as to 80%. Therefore, each of Exceltech Food, Exceltech Global and Exceltech International is a connected person of the Company under Chapter 14A of the Listing Rules.

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

On 16 October 2020, the Company entered into a framework agreement (the “Zhiguan Framework Agreement”) with Guangxi Zhiguan Industrial Development Co., Limited (廣西志冠實業開發有限公司) (“Guangxi Zhiguan”), pursuant to which Guangxi Zhiguan agreed to supply and process cattle skin to the Group for a term of three years from 1 January 2021 to 31 December 2023. The purchases by the Group from Guangxi Zhiguan under the Zhiguan Framework Agreement for the Year amounted to RMB175,735,000 and the annual cap set in the said agreement for the Year was RMB229,860,000.

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 (iv) above, please refer to the announcements issued by the Company dated 16 October 2020 and the circular of the Company dated 25 November 2020. For further details of the transactions stated in (iii) above, please refer to the announcements issued by the Company dated 16 October 2020.

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(1) of the Listing Rules) in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 (Revised) *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(1) of the Listing Rules) by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Connected Transactions

On 28 June 2021, Nanning Shangguan Food Co., Ltd (南寧尚冠食品有限公司) ("Nanning Shangguan"), Shenguan Collagen and Guangxi Luxina Biological Technology Development Co., Ltd (廣西露仙娜生物科技發展有限公司) ("Luxina") had separately entered into three tenancy agreements ("Tenancy Agreements") with Guangxi Shenguan Investment Co., Ltd (廣西神冠投資有限公司) (the "Landlord") for a period of three years commencing from 1 July 2021 to 30 June 2024. Nanning Shangguan, Shenguan Collagen and Luxina are companies established in the PRC and wholly-owned subsidiaries of the Company.

The Landlord is owned as to 95% and 5% by Ms. Zhou and Mr. Sha Junqi, respectively. Mr. Sha Junqi is a vice president of the Company and is the son of Ms. Zhou, an executive Director and one of the controlling shareholders of the Company, and thus the Landlord is a connected person of the Company. Pursuant to the Listing Rules, the entering into of the Tenancy Agreements constitute connected transactions of the Company. In addition, as the Tenancy Agreements are entered into by the Group with the same party (i.e. the Landlord), the Tenancy Agreements will be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

In accordance with HKFRS 16 "Leases", the Company will recognise the right-of-use asset on its consolidated statement of financial position in connection with the Tenancy Agreements. Accordingly, the entering into of the Tenancy Agreements will be regarded as acquisition of assets by the Group which will constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules.

For further details of the transaction, please refer to the announcement dated 28 June 2021.

## Related Party Transactions

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 34 to the financial statements are "continuing connected transactions and 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 34(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 2021, 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.

## 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 2021 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  
29 March 2022





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### 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 127, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") 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 ("HKSA") 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***Provision for obsolete and slow-moving inventories*

As at 31 December 2021, the Group had inventories (net of provision) amounting to approximately RMB422.3 million, which represented 12.8% of the total assets of the Group.

As at 31 December 2021, the provision balance for inventories of approximately RMB34.5 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 the provision involved significant estimates.

Related disclosures are included in notes 2.4, 3 and 17 to the financial statements.

**How our audit addressed the key audit matter**

We obtained an understanding of the Group's practices on inventory management, and assessed the Group's policy on identification and valuation of obsolete, slow-moving, excess and other inventory items for which their costs might not be fully recoverable; checked the ageing of inventories on a sampling basis and sales and usage after the end of the reporting period; evaluated the estimates and underlying data used by the Group in calculating the net realisable values of inventories; and recalculated the provision balance based on the data verified.

**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.

**To the shareholders of Shenguan Holdings (Group) Limited**

(Incorporated in the Cayman Islands with limited liability)

**Responsibilities of the directors for the consolidated financial statements**

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

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

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

**Auditor's responsibilities for the audit of the consolidated financial statements**

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, 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.



**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)**

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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 LEUNG, Yin.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

29 March 2022

## 50 | CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>REVENUE</b>	5	<b>1,168,099</b>	961,623
Cost of sales		<b>(857,608)</b>	(722,577)
Gross profit		<b>310,491</b>	239,046
Other income and gains, net	5	<b>53,550</b>	70,645
Selling and distribution expenses		<b>(36,569)</b>	(32,655)
Administrative expenses		<b>(157,715)</b>	(163,748)
Finance costs	7	<b>(5,335)</b>	(2,493)
Share of loss of an associate		<b>(1,432)</b>	(2,357)
<b>PROFIT BEFORE TAX</b>	6	<b>162,990</b>	108,438
Income tax expense	10	<b>(42,974)</b>	(21,669)
<b>PROFIT FOR THE YEAR</b>		<b>120,016</b>	86,769
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial information		<b>5,192</b>	2,606
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Revaluation gain on transfer of right-of-use asset and property, plant and equipment to investment property		<b>2,943</b>	–
<b>NET OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>8,135</b>	2,606
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>128,151</b>	89,375
Profit attributable to:			
Owners of the Company		<b>122,652</b>	90,754
Non-controlling interests		<b>(2,636)</b>	(3,985)
		<b>120,016</b>	86,769
Total comprehensive income attributable to:			
Owners of the Company		<b>130,787</b>	93,360
Non-controlling interests		<b>(2,636)</b>	(3,985)
		<b>128,151</b>	89,375
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	12		
Basic (RMB cents per share)		<b>3.8</b>	2.8
Diluted (RMB cents per share)		<b>3.8</b>	2.8

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

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	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	1,056,228	1,091,925
Investment properties	14	17,017	5,813
Right-of-use assets	15(a)	115,536	114,025
Investment in an associate	16	25,176	26,608
Deferred tax assets	25	18,859	19,494
Long term prepayments and other receivables	19	49,836	16,917
Pledged deposit	20	145,000	70,000
Time deposits	20	155,500	280,000
Total non-current assets		1,583,152	1,624,782
<b>CURRENT ASSETS</b>			
Inventories	17	422,280	459,233
Trade and bills receivables	18	190,288	168,350
Prepayments, other receivables and other assets	19	57,453	50,890
Pledged deposits	20	60,000	109,660
Cash and cash equivalents	20	998,897	717,285
Total current assets		1,728,918	1,505,418
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	21	48,978	130,838
Other payables and accruals	22	113,109	99,631
Derivative financial instruments	23	1,506	–
Interest-bearing bank borrowings	24	418,174	148,391
Lease liabilities	15(b)	4,109	1,056
Tax payable		32,145	23,321
Total current liabilities		618,021	403,237
<b>NET CURRENT ASSETS</b>		<b>1,110,897</b>	<b>1,102,181</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,694,049</b>	<b>2,726,963</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	15(b)	5,669	1,803
Deferred income		24,322	28,418
Deferred tax liabilities	25	8,470	8,024
Total non-current liabilities		38,461	38,245
Net assets		2,655,588	2,688,718



31 December 2021

	<i>Notes</i>	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	26	27,807	27,807
Reserves	28	2,630,417	2,660,911
		<b>2,658,224</b>	2,688,718
<b>Non-controlling interests</b>		<b>(2,636)</b>	–
Total equity		<b>2,655,588</b>	2,688,718

**Ms. Zhou Yaxian**  
*Director*

**Mr. Ru Xiquan**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

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	Attributable to owners of the Company										Non-controlling interests RMB'000	Total equity RMB'000
	Issued capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000 (note 28(i))	Reserve funds RMB'000 (note 28(ii))	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note 28(iii))	Retained profits RMB'000	Total RMB'000			
	At 1 January 2020	27,807	98,081	59	373,151	23,502	(107,056)	(264,343)	2,621,241	2,772,442		
Profit for the year	-	-	-	-	-	-	-	90,754	90,754	(3,985)	86,769	
Other comprehensive income for the year:												
Exchange differences on translation of financial information	-	-	-	-	-	2,606	-	-	2,606	-	2,606	
Total comprehensive income for the year	-	-	-	-	-	2,606	-	90,754	93,360	(3,985)	89,375	
Final 2019 dividend and special dividend	-	-	-	-	-	-	-	(177,084)	(177,084)	-	(177,084)	
At 31 December 2020	27,807	98,081*	59*	373,151*	23,502*	(104,450)*	(264,343)*	2,534,911*	2,688,718	-	2,688,718	

	Attributable to owners of the Company										Non-controlling interests RMB'000	Total equity RMB'000
	Issued capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000 (note 28(i))	Reserve funds RMB'000 (note 28(ii))	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note 28(iii))	Property revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000		
	At 1 January 2021	27,807	98,081	59	373,151	23,502	(104,450)	(264,343)	-	2,534,911		
Profit for the year	-	-	-	-	-	-	-	-	122,652	122,652	(2,636)	120,016
Other comprehensive income for the year:												
Exchange differences on translation of financial information	-	-	-	-	-	5,192	-	-	-	5,192	-	5,192
Property revaluation reserve	-	-	-	-	-	-	-	2,943	-	2,943	-	2,943
Total comprehensive income for the year	-	-	-	-	-	5,192	-	2,943	122,652	130,787	(2,636)	128,151
Final 2020 dividend and special dividend	-	-	-	-	-	-	-	-	(161,281)	(161,281)	-	(161,281)
At 31 December 2021	27,807	98,081*	59*	373,151*	23,502*	(99,258)*	(264,343)*	2,943*	2,496,282*	2,658,224	(2,636)	2,655,588

\* These reserve accounts comprise the consolidated reserves of RMB2,630,417,000 (2020: RMB2,660,911,000) in the consolidated statement of financial position.

# 54 | CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		162,990	108,438
Adjustments for:			
Interest on bank borrowings and lease liabilities	7	5,335	2,493
Share of loss of an associate		1,432	2,357
Bank interest income	5	(38,477)	(33,252)
Other interest income	5	(199)	(1,360)
Fair value losses on derivative financial instruments			
– transactions not qualifying as hedges	6	1,506	–
Gain on disposal of financial assets at fair value through profit or loss	5	–	(2,260)
Gain on disposal of right-of-use assets	5	(1,233)	(926)
Loss on disposal of items of property, plant and equipment, net	6	10,206	540
Depreciation of property, plant and equipment	6	94,294	98,715
Changes in fair value of investment properties	6	1,453	2,088
Depreciation of right-of-use assets	6	5,679	4,201
Amortisation of intangible assets	6	–	36,104
Impairment of property, plant and equipment	6	–	7,096
Impairment of trade and bills receivables	6	13,227	4,519
Government grants released	5	(8,436)	(30,564)
Write-off inventories	6	8,605	–
(Reversal of provision)/provision against obsolete and slow-moving inventories	6	(10,367)	26,015
		246,015	224,204
Decrease/(increase) in inventories		38,715	(12,837)
(Increase)/decrease in trade and bills receivables		(35,436)	101,699
Decrease in prepayments, other receivables and other assets		726	24,920
(Decrease)/increase in trade and bills payables		(81,860)	52,285
Increase in other payables and accruals		8,522	21,749
Receipt of government grants		4,340	27,408
Cash generated from operations		181,022	439,428
Interest received		31,755	23,396
Hong Kong profits tax paid		(1,358)	(1,660)
PRC tax paid		(31,711)	(18,020)
Net cash flows from operating activities		179,708	443,144



Year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(69,163)	(76,117)
Proceeds from disposal of items of property, plant and equipment		2,403	–
Proceeds from disposal of right-of-use assets		2,465	1,663
Prepayment of land lease payment		(36,400)	–
Net changes to financial assets at fair value through profit or loss		–	12,399
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(86,185)	(259,815)
Increase in pledged deposits		(25,340)	(84,660)
Net cash flows used in investing activities		(212,220)	(406,530)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans		430,643	154,892
Repayment of bank loans		(157,236)	(90,703)
Interest paid		(5,307)	(2,480)
Principal portion of lease payments		(2,657)	(1,415)
Dividends paid		(161,281)	(177,084)
Net cash flows from/(used in) financing activities		104,162	(116,790)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		291,470	373,063
Effect of foreign exchange rate changes, net		(723)	(1,417)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>362,397</b>	291,470
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	20	252,397	218,470
Non-pledged time deposits with original maturity of less than three months when acquired		110,000	73,000
Cash and cash equivalents as stated in the consolidated statement of cash flows		362,397	291,470
Non-pledged time deposits with original maturity of over three months when acquired		792,000	705,815
Less: Non-pledged time deposits classified as non-current		1,154,397 (155,500)	997,285 (280,000)
Cash and cash equivalents as stated in the consolidated statement of financial position	20	998,897	717,285

31 December 2021

## 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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111. 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 casings
廣西神冠膠原生物集團有限公司 ("Guangxi Shenguan Collagen Biological Group Company Ltd.") ("Guangxi Shenguan")*/^ (Previously named "Wuzhou Shenguan Protein Casing Co Ltd")	The People's Republic of China (the "PRC")/ Mainland China	RMB460,000,000	–	100%	Manufacture and sale of collagen sausage casings
廣西梧州三箭制藥有限公司 ("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)

\* *The entity is registered as a Sino-foreign joint ventures under the PRC law.*

\*\* *The entity is registered as a domestic limited liability company under the PRC law.*

^ *The English names of these entities represent the best effort made by the 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 derivative financial instruments 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 2021. 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.



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## 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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 39,  
HKFRS 4, HKFRS 7,  
HKFRS 9 and HKFRS 16  
Amendment to HKFRS 16

*Interest Rate Benchmark Reform – Phase 2*

COVID-19-Related Concessions beyond 30 June 2021 (early adopted)

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## 2.2 Changes in Accounting Policies and Disclosures (Continued)

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("HIBOR") and United States dollars based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2021. The Group also had an interest rate swap whereby the Group pays interest at a fixed rate of 0.5% and receives interest at a variable rate based on HIBOR on the notional amount. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings and interest rate swap. For the LIBOR-based borrowing, since the interest rate of this borrowing was not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rate of this borrowing is replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

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## 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	<i>Reference to the Conceptual Framework</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to HKFRS 17	<i>Insurance Contracts</i> <sup>2, 5</sup>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> <sup>6</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>2, 4</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> <sup>2</sup>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> <sup>2</sup>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>2</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>1</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>1</sup>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

<sup>5</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

<sup>6</sup> The HKICPA amends HKFRS 17 in February 2022 to permit a classification overlay for financial assets presented in comparative periods on initial application of HKFRS 17

31 December 2021

## 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 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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 resulting from a downstream transaction 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 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.



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

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

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

*Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 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*.

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## 2.4 Summary of Significant Accounting Policies (continued)

### 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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

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 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.

## 2.4 Summary of Significant Accounting Policies (Continued)

### Business combinations and goodwill (Continued)

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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



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## 2.4 Summary of Significant Accounting Policies (Continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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.

### Related parties

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

## 2.4 Summary of Significant Accounting Policies (Continued)

### Related parties (Continued)

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

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

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## 2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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

	<b>Annual depreciation rate</b>	<b>Residual value</b>
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.

### Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset 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.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the year of the retirement or disposal.

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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Leases

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 5 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 lease. 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.



## 2.4 Summary of Significant Accounting Policies (Continued)

### Leases (Continued)

#### Group as a lessee (Continued)

##### (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 of assets 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.

#### 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.

### 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.

## 2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

### **Initial recognition and measurement (Continued)**

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

### 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.

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## 2.4 Summary of Significant Accounting Policies (Continued)

### Derecognition of financial assets (Continued)

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.

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 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                          |

## 2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

### **Simplified approach**

For trade receivables 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.

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, derivative financial instruments and interest-bearing bank and other borrowings.

### **Subsequent measurement**

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

#### ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.



## 2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

### **Subsequent measurement (Continued)**

#### ***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 a 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.

### Derivative financial instruments and hedge accounting

#### **Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as forward currency contract and interest rate swap, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

## 2.4 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments and hedge accounting (Continued)

### **Current versus non-current classification**

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

### 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.

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## 2.4 Summary of Significant Accounting Policies (Continued)

### 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, for 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 with 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).

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## 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 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.

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## 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 Company's subsidiaries registered in the Singapore are required to make contribution to the Central Provident Fund scheme (the "CPF Scheme"), a defined contribution pension scheme. Under the CPF Scheme, the employer and its employees are each required to make contributions to the CPF Scheme at generally 17% and 20% of the employees' relevant income, subject to a cap of monthly relevant income of generally SGD6,000. There are different CPF rates applied to the senior workers aged 55 and above.

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. During the year ended 31 December 2021, there was no forfeited contribution under the MPF Scheme, the state sponsored retirement plan of the PRC and the CPF Scheme which may be used by the Group to reduce the existing level of contributions, nor any contribution under the MPF Scheme, the state-sponsored retirement plan of the PRC and the CPF Scheme was forfeited by the Group.

### 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 note 11 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.

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## 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 exchange rates that approximate to those prevailing at the dates of the transactions.

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 a 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.



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### 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.

#### **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 an 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.

#### **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 and rating).

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.

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### 3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

#### Provision for expected credit losses on trade and other receivables (Continued)

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 18 to the financial statements.

The ECLs for financial assets included in prepayments, deposits 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.

#### 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 is also involved in the manufacture and sale of pharmaceutical products, food products, skin care and health care products and bioactive collagen products.

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

Geographical information

#### (a) Revenue from external customers

	2021 RMB'000	2020 RMB'000
Mainland China	1,056,900	856,757
Asia (excluding Mainland China)	60,943	51,412
Other countries/regions	50,256	53,454
	<b>1,168,099</b>	961,623

#### (b) Non-current assets

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

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#### 4. Operating Segment Information (Continued)

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:

	2021 RMB'000	2020 RMB'000
Customer 1	200,676	124,619
Customer 2	191,406	118,084
Customer 3	N/A*	115,799

\* 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:

	2021 RMB'000	2020 RMB'000
<b>Revenue from contracts with customers</b>		
Goods transferred at a point in time	1,168,001	961,497
Services transferred over time	98	126
	<b>1,168,099</b>	961,623

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:

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	14,958	11,093

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.

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

Performance obligations (Continued)

### 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 2021 (2020: Nil).

	2021 RMB'000	2020 RMB'000
<b>Other income</b>		
Bank interest income	38,502	33,252
Other interest income	199	1,360
Sale of dried meat products	2,320	467
Government grants*	8,436	30,564
Rental income	1,971	502
Others	889	1,314
	<b>52,317</b>	67,459
<b>Gains</b>		
Gain on disposal of financial assets at fair value through profit or loss	–	2,260
Gain on disposal of right-of-use assets	1,233	926
	<b>1,233</b>	3,186
Total other income and gains, net	<b>53,550</b>	70,645

\* During the years ended 31 December 2021 and 2020, various government grants have been received in respect of improvements made to plant, machinery and equipment and one-off subsidies for stabilisation of employment related to COVID-19.

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 2021 (2020: Nil).



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## 6. Profit Before Tax

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

	Notes	2021 RMB'000	2020 RMB'000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		154,659	146,227
Retirement benefit contributions		38,195	24,464
		<b>192,854</b>	170,691
Auditor's remuneration		2,180	2,098
Cost of inventories sold**		771,697	613,771
Depreciation of property, plant and equipment	13	94,294	98,715
Depreciation of right-of-use assets*	15(a)	5,679	4,201
Amortisation of intangible assets*		–	36,104
Changes in fair value of investment properties*	14	1,453	2,088
Fair value losses on derivative financial instruments – transactions not qualifying as hedges*	23	1,506	–
Lease payments not included in the measurement of lease liabilities	15(c)	2,420	2,709
Loss on disposal of items of property, plant and equipment, net*		10,206	540
Impairment of property, plant and equipment*	13	–	7,096
Impairment of trade receivables, net*	18	13,227	4,519
Write-off of inventories**		8,605	–
(Reversal of provision)/provision against obsolete and slow-moving inventories**		(10,367)	26,015
Foreign exchange differences, net^		2,102	6,256
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		229	13

\* 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.

^ This item is included in "Other income and gains, net" in the consolidated statement of profit or loss and other comprehensive income when net gain is recognised and included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income when net loss is recognised.

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## 7. Finance Costs

	2021 RMB'000	2020 RMB'000
Interest on bank loans	5,053	2,376
Interest on lease liabilities	282	117
	<b>5,335</b>	2,493

## 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:

	2021 RMB'000	2020 RMB'000
Fees	954	943
Other emoluments:		
Salaries, allowances and benefits in kind	7,948	6,840
Discretionary performance-related bonuses*	2,816	1,574
Retirement benefit contributions	83	85
	<b>10,847</b>	8,499
	<b>11,801</b>	9,442

\* 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:

	2021 RMB'000	2020 RMB'000
Mr. Tsui Yung Kwok	208	196
Mr. Meng Qinguo	208	196
Mr. Yang Xiaohu	208	196
	<b>624</b>	588

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

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**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
<b>2021</b>					
Executive directors:					
Ms. Zhou Yaxian	66	3,730	1,280	38	5,114
Mr. Shi Guicheng	66	1,406	512	15	1,999
Mr. Ru Xiquan	66	1,406	512	15	1,999
Mr. Mo Yunxi	66	1,406	512	15	1,999
	264	7,948	2,816	83	11,111
Non-executive director:					
Dato' Sri Low Jee Keong	66	–	–	–	66
	330	7,948	2,816	83	11,177
	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
<b>2020</b>					
Executive directors:					
Ms. Zhou Yaxian	71	3,222	716	40	4,049
Mr. Shi Guicheng	71	1,206	286	15	1,578
Mr. Ru Xiquan	71	1,206	286	15	1,578
Mr. Mo Yunxi	71	1,206	286	15	1,578
	284	6,840	1,574	85	8,783
Non-executive director:					
Dato' Sri Low Jee Keong	71	–	–	–	71
	355	6,840	1,574	85	8,854

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2020: Nil).

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## 9. Five Highest Paid Employees

The five highest paid employees during the year included four directors (2020: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2020: one) highest paid employee who is not a director of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	1,403	1,206
Discretionary performance related bonuses	544	286
Retirement benefit contributions	9	15
	<b>1,956</b>	1,507

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

## 10. Income Tax Expense

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

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

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

	2021 RMB'000	2020 RMB'000
Current – PRC	40,525	34,336
Current – Hong Kong	1,368	1,467
Deferred tax ( <i>note 25</i> )	1,081	(14,134)
Total tax charge for the year	<b>42,974</b>	21,669



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**10. Income Tax Expense (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:

**2021**

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	149,614		13,376		162,990	
Tax at the statutory tax rates	37,404	25.0	2,208	16.5	39,612	24.3
Lower tax rate for specific province or enacted by local authority	(18,563)		(137)		(18,700)	
Loss attributable to an associate	215		–		215	
Expenses not deductible for tax	7,918		918		8,836	
Income not subject to tax	(1,734)		(2,655)		(4,389)	
Super-deduction of eligible research and development expenditure	(2,326)		–		(2,326)	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	9,710		–		9,710	
Tax losses not recognised	9,130		886		10,016	
Tax charge at the Group's effective rate	41,754	27.9	1,220	9.1	42,974	26.4

**2020**

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	99,547		8,891		108,438	
Tax at the statutory tax rates	24,884	25.0	1,467	16.5	26,351	24.3
Lower tax rate for specific province or enacted by local authority	(12,597)		(147)		(12,744)	
Loss attributable to an associate	354		–		354	
Expenses not deductible for tax	8,834		1,448		10,282	
Income not subject to tax	(4,558)		(1,614)		(6,172)	
Super-deduction of eligible research and development expenditure	(4,405)		–		(4,405)	
Tax losses not recognised	7,010		993		8,003	
Tax charge at the Group's effective rate	19,522	19.6	2,147	24.1	21,669	20.0

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## 11. Dividends

	2021 RMB'000	2020 RMB'000
Final dividend proposed subsequent to the reporting period – HK2.0 cents (2020: HK2.0 cents) per ordinary share	52,521	54,554
Final special dividend proposed subsequent to the reporting period – HK4.0 cents (2020: HK4.0 cents) per ordinary share	105,042	109,109
	<b>157,563</b>	163,663

The final dividend and special dividend for the year ended 31 December 2021 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 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 RMB122,652,000 (2020: RMB90,754,000) and the weighted average number of 3,230,480,000 (2020: 3,230,480,000) ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

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### 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
<b>31 December 2021</b>						
At 31 December 2020 and 1 January 2021:						
Cost	72,549	711,542	1,033,915	17,404	94,086	1,929,496
Accumulated depreciation and impairment	–	(188,617)	(637,169)	(11,785)	–	(837,571)
Net carrying amount	72,549	522,925	396,746	5,619	94,086	1,091,925
At 1 January 2021, net of accumulated depreciation and impairment	72,549	522,925	396,746	5,619	94,086	1,091,925
Additions	–	39,205	24,776	792	18,952	83,725
Disposals	–	(1,011)	(11,299)	(299)	–	(12,609)
Depreciation provided during the year	–	(23,712)	(69,950)	(632)	–	(94,294)
Transfers	–	50,359	10,316	–	(60,675)	–
Revaluation gain on transfer from property, plant and equipment to investment properties	–	2,943	–	–	–	2,943
Transfer to investment properties (note 14)	–	(11,278)	–	–	–	(11,278)
Exchange realignment	(3,025)	(695)	(27)	(52)	(385)	(4,184)
At 31 December 2021, net of accumulated depreciation and impairment	69,524	578,736	350,562	5,428	51,978	1,056,228
At 31 December 2021:						
Cost	69,524	790,416	1,007,896	15,192	51,978	1,935,006
Accumulated depreciation and impairment	–	(211,680)	(657,334)	(9,764)	–	(878,778)
Net carrying amount	69,524	578,736	350,562	5,428	51,978	1,056,228

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**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
<b>31 December 2020</b>						
At 31 December 2019 and 1 January 2020:						
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
At 1 January 2020, net of accumulated depreciation						
	75,985	455,881	448,781	4,388	140,584	1,125,619
Additions	–	2,062	18,728	2,187	54,565	77,542
Disposals	–	(137)	(108)	(295)	–	(540)
Depreciation provided during the year	–	(25,504)	(72,610)	(601)	–	(98,715)
Impairment	–	–	(7,096)	–	–	(7,096)
Transfers	–	91,271	9,098	–	(100,369)	–
Exchange realignment	(3,436)	(648)	(47)	(60)	(694)	(4,885)
At 31 December 2020, net of accumulated depreciation and impairment						
	72,549	522,925	396,746	5,619	94,086	1,091,925
At 31 December 2020:						
Cost	72,549	711,542	1,033,915	17,404	94,086	1,929,496
Accumulated depreciation and impairment	–	(188,617)	(637,169)	(11,785)	–	(837,571)
Net carrying amount	72,549	522,925	396,746	5,619	94,086	1,091,925

## Notes:

- (a) The Group entered into agreements with two independent third parties to lease two warehouses during the year. Accordingly, the properties were transferred to investment properties during the year, details of which are disclosed in note 14 to the financial statements.
- (b) As at 31 December 2020, the Company's directors considered that certain property, plant and equipment amounting to RMB7,096,000 were subject to impairment as these assets retired due to poor efficiency.

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## 14. Investment Properties

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	5,813	7,901
Net loss from a fair value adjustment	(1,453)	(2,088)
Transfer from right-of-use asset and owner-occupied property	12,657	–
Carrying amount at 31 December	17,017	5,813

The Group's investment properties consist of three commercial properties, two warehouses and a land (2020: three commercial properties) in Wuzhou, Guangxi Province, the PRC.

The three commercial properties were revalued on 31 December 2021 based on valuations performed by management. During the year a fair value loss of the three commercial properties of RMB1,453,000 (2020: RMB2,088,000) was recognised in profit or loss during the year.

As disclosed in notes 13(a) and 15 to the financial statements, the Group leased two warehouses to two independent third parties. Since the usage of the two warehouses were changed for earning rental income, the two warehouses and the land which the warehouses sit upon ("the Properties"), were transferred from property, plant and equipment and right-of-use assets to investment properties at the time when the Group entered into the lease contracts with the lessees. The values of the Properties were determined based on valuations performed by 廣西桂鑫誠資產評估有限公司 (Guangxi Guixincheng Asset Valuation Services Limited), an independent professionally qualified valuer. The difference between the fair value and the carrying amount of the Properties at the date of transfer amounting to RMB2,943,000 was charged to property revaluation reserve through other comprehensive income.

The investment properties are leased to third parties 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			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Recurring fair value measurement for: Commercial properties, land and warehouses				
As at 31 December 2021	–	–	17,017	17,017
As at 31 December 2020	–	–	5,813	5,813



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## 14. Investment Properties (Continued)

Fair value hierarchy (Continued)

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 (2020:Nil).

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

	Commercial properties RMB'000	Land and warehouses RMB'000	Total RMB'000
Carrying amount at 1 January 2020	7,901	–	7,901
Net loss from a fair value adjustment recognised in other income and gains in profit or loss	(2,088)	–	(2,088)
Carrying amount at 31 December 2020 and 1 January 2021	<b>5,813</b>	–	<b>5,813</b>
Net loss from a fair value adjustment recognised in other income and gains in profit or loss	<b>(1,453)</b>	–	<b>(1,453)</b>
Transfer from an owner-occupied property	–	<b>12,657</b>	<b>12,657</b>
Carrying amount at 31 December 2021	<b>4,360</b>	<b>12,657</b>	<b>17,017</b>

Set out below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Value/rate
2021 Commercial properties	Discounted cash flow method	Estimated rental value (per sq.m. per month)	<b>RMB134</b>
		Estimated remaining leasable period	<b>26 years</b>
		Discount rate	<b>8%</b>
Land and warehouses	Discounted cash flow method	Estimated rental value (per sq.m. per month)	<b>RMB13 to RMB15</b>
		Estimated remaining leasable period	<b>36 years</b>
		Discount rate	<b>7%</b>
2020 Commercial properties	Discounted cash flow method	Estimated rental value (per sq.m. per month)	RMB173
		Estimated remaining leasable period	27 years
		Discount rate	8%

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## 14. Investment Properties (Continued)

### Fair value hierarchy (Continued)

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 and remaining leasable period 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.

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## 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 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

### (a) Right-of-use assets

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

	Leasehold land <i>RMB'000</i>	Office and production premises <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020	114,701	1,389	116,090
Addition	–	2,903	2,903
Disposal	(737)	–	(737)
Depreciation charge	(2,691)	(1,510)	(4,201)
Exchange realignment	–	(30)	(30)
At 31 December 2020 and 1 January 2021	<b>111,273</b>	<b>2,752</b>	<b>114,025</b>
Addition	–	<b>9,601</b>	<b>9,601</b>
Disposal	<b>(1,007)</b>	–	<b>(1,007)</b>
Transfer to investment properties	<b>(1,379)</b>	–	<b>(1,379)</b>
Depreciation charge	<b>(2,776)</b>	<b>(2,903)</b>	<b>(5,679)</b>
Exchange realignment	–	<b>(25)</b>	<b>(25)</b>
At 31 December 2021	<b>106,111</b>	<b>9,425</b>	<b>115,536</b>

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**15. Leases (Continued)**

The Group as a lessee (Continued)

**(b) Lease liabilities**

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

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	2,859	1,402
New leases	9,601	2,903
Accretion of interest recognised during the year	282	117
Payments	(2,939)	(1,532)
Exchange realignment	(25)	(31)
Carrying amount at 31 December	9,778	2,859
Analysed into:		
Current portion	4,109	1,056
Non-current portion	5,669	1,803

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

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

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	282	117
Depreciation charge of right-of-use assets	5,679	4,201
Expense relating to short-term leases (included in administrative expenses)	2,420	2,709
Total amount recognised in profit or loss	8,381	7,027

**(d) The total cash outflow for leases is disclosed in note 30(c) to the financial statements.**

The Group as a lessor

The Group leases its investment properties (note 14) consisting of three commercial properties, two warehouses and a land (2020: three commercial properties) in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Together with lease of its property and equipment, rental income recognised by the Group during the year was RMB1,971,000 (2020: RMB502,000).

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## 15. Leases (Continued)

The Group as a lessor (Continued)

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 RMB'000	2020 RMB'000
Within one year	2,394	153
After one year but within two years	2,225	–
After two years but within three years	2,055	–
After three years but within four years	1,916	–
After four years but within five years	382	–
	<b>8,972</b>	153

## 16. Investment in an Associate

	2021 RMB'000	2020 RMB'000
Share of net assets	25,176	26,608
Goodwill on acquisition	28,029	28,029
	<b>53,205</b>	54,637
Provision for impairment	(28,029)	(28,029)
	<b>25,176</b>	26,608

(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		Principal activities
			2021	2020	
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.



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**16. 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:

	2021 RMB'000	2020 RMB'000
Current assets	81,183	83,556
Non-current assets, excluding goodwill	100,157	111,954
Current liabilities	(60,267)	(78,000)
Non-current liabilities	(20,369)	(11,078)
Net assets	100,704	106,432
Net assets, excluding goodwill	100,704	106,432
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	25,176	26,608
Carrying amount of the investment	25,176	26,608
Revenue	109,930	89,499
Loss for the year	(5,726)	(9,428)
Total comprehensive loss for the year	(5,726)	(9,428)

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## 16. Investment in an Associate (Continued)

### (c) Impairment testing of investment in an associate

No additional impairment was provided during the years ended 31 December 2021 and 2020.

The recoverable amount of the investment as at 31 December 2021 and 2020 was determined based on its value in use 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 2.0% (2020: 2.6%) beyond the fifth year. The pre-tax discount rate applied to cash flow projections is 14.6% (2020: 15.7%).

Assumptions were used in the estimation of the value in use of the associate for the years ended 31 December 2021 and 2020. 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.

## 17. Inventories

	2021 RMB'000	2020 RMB'000
Raw materials	96,413	79,933
Work in progress	41,986	35,393
Finished goods	283,881	343,907
	<b>422,280</b>	459,233

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## 18. Trade and Bills Receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	165,715	139,190
Due from related companies	1,945	1,108
	<b>167,660</b>	140,298
Bills receivable	62,638	54,835
	<b>230,298</b>	195,133
Impairment	(40,010)	(26,783)
	<b>190,288</b>	168,350

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:

	2021 RMB'000	2020 RMB'000
Within 1 month	88,232	58,072
1 month to 3 months	77,335	56,797
3 months to 6 months	18,493	43,638
6 months to 1 year	3,608	3,207
Over 1 year	2,620	6,636
	<b>190,288</b>	168,350

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## 18. Trade and Bills Receivables (Continued)

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

	2021 RMB'000	2020 RMB'000
At 1 January	26,783	26,180
Impairment losses, net (note 6)	13,227	4,519
At 31 December	40,010	26,783

The increase (2020: increase) in the loss allowance was due to the changes in the expected credit loss rate with reference to the change in the general economic environment.

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). 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 2021

	Past due					Total
	Current	Less than 1 month	1 to 3 months	3 to 9 months	Over 9 months	
Expected credit loss rate (%)	2.9	6.5	28.0	77.2	91.5	23.9
Gross carrying amount (RMB'000)	110,914	13,237	4,185	8,641	30,683	167,660
Expected credit losses (RMB'000)	3,247	860	1,173	6,667	28,063	40,010

### As at 31 December 2020

	Past due					Total
	Current	Less than 1 month	1 to 3 months	3 to 9 months	Over 9 months	
Expected credit loss rate (%)	7.7	7.6	21.7	27.9	70.9	19.1
Gross carrying amount (RMB'000)	86,081	22,284	4,688	4,450	22,795	140,298
Expected credit losses (RMB'000)	6,671	1,691	1,019	1,243	16,159	26,783

The financial impact of the expected credit losses for bills receivable under HKFRS 9 is insignificant for the years ended 31 December 2021 and 2020.

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**18. Trade and Bills Receivables (Continued)**

Due from related companies:

	<i>Notes</i>	<b>At 31 December 2021 RMB'000</b>	At 31 December 2020 and 1 January 2021 RMB'000	At 1 January 2020 RMB'000
Exceltech Food Trading SDN BHD. ("Exceltech Food Trading")	<i>(a)</i>	<b>1,510</b>	2	1,701
Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan")	<i>(b)</i>	<b>435</b>	1,106	976
		<b>1,945</b>	1,108	2,677

*Notes:*

- (a) Exceltech Food Trading is controlled by Dato' Sri Low Jee Keong, a director of the Company. The maximum outstanding balances of the amount due from Exceltech Food Trading during the years ended 31 December 2021 and 2020 were RMB3,288,000 and RMB1,701,000, respectively. The amount due from Exceltech Food Trading is unsecured, non-interest-bearing and has a repayment term of 30 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 2021 and 2020 were RMB1,394,000 and RMB1,106,000, 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.



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## 19. Prepayments, Other Receivables and Other Assets

	2021 RMB'000	2020 RMB'000
Prepayments	70,193	35,252
Deposits and other receivables	37,096	32,555
	<b>107,289</b>	67,807
Less: Current portion	(57,453)	(50,890)
Non-current portion	49,836	16,917

Deposits and other receivables mainly represent rental deposits and interest receivables from time deposits. 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. The Group has concluded that the probability of default and loss rate were low. 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 2021 and 2020, the loss allowance for deposits and other receivables under HKFRS 9 was assessed to be minimal.

## 20. Cash and Cash Equivalents and Pledged Deposits

	2021 RMB'000	2020 RMB'000
Cash and bank balances	252,397	218,470
Time deposits	1,107,000	958,475
	<b>1,359,397</b>	1,176,945
Less: Pledged time deposits for		
– bank loans ( <i>note 24(b)</i> )	(195,000)	(125,000)
– bills payable ( <i>notes 21</i> )	(10,000)	(54,660)
Less: Non-current time deposits	(155,500)	(280,000)
Cash and cash equivalents	998,897	717,285

At the end of the reporting period, the cash and bank balances (including time deposits) of the Group denominated in RMB amounted to RMB1,303,549,000 (2020: RMB1,126,460,000). 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.

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## 21. Trade And Bills Payables

	Notes	2021 RMB'000	2020 RMB'000
Trade payables:			
Due to third parties		22,054	20,936
Due to related parties:			
Guangxi Zhiguan	(a)	13,459	19,203
Wuzhou Zhongbo Packaging Co., Ltd. ("Wuzhou Zhongbo")	(a), (b)	35	627
Wuzhou Junye Trademark Printing Material Co., Ltd. ("Wuzhou Junye")	(a), (b)	360	2,860
		35,908	43,626
Bills payables:			
Due to third parties		2,970	18,613
Due to related parties:			
Guangxi Zhiguan		10,000	60,749
Wuzhou Zhongbo		–	200
Wuzhou Junye		100	7,650
		13,070	87,212
		48,978	130,838

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:

	2021 RMB'000	2020 RMB'000
Within 1 month	38,836	47,559
1 to 2 months	2,715	18,637
2 to 3 months	1,134	15,854
3 to 6 months	1,718	29,931
Over 6 months	4,575	18,857
	48,978	130,838

Notes:

- (a) The trade and bills payables to Guangxi Zhiguan, Wuzhou Zhongbo and Wuzhou Junye are settled on terms no longer than 180 days.
- (b) Wuzhou Zhongbo and Wuzhou Junye are owned by Mr. Sha Shuming, the spouse of Ms. Zhou Yaxian, a director of the Company.

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

As at 31 December 2021, time deposits amounting to RMB10,000,000 (2020: RMB54,660,000) were pledged for bills payable amounting to RMB10,000,000 (2020: RMB35,900,000).

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## 22. Other Payables And Accruals

	<i>Notes</i>	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Contract liabilities	(a)	<b>20,821</b>	14,958
Other payables	(b)	<b>64,162</b>	63,271
Accruals		<b>28,126</b>	21,402
		<b>113,109</b>	99,631

Notes:

- (a) Details of contract liabilities are as follows:

	<b>31 December</b> <b>2021</b> <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	1 January 2020 <i>RMB'000</i>
Short-term advances received from customers for the sale of goods	<b>20,821</b>	14,958	11,093

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

The increase in contract liabilities as at 31 December 2021 and 2020 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.

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

## 23. Derivative Financial Instruments

	<i>Notes</i>	<b>2021</b> <b>Liabilities</b> <i>RMB'000</i>
Forward currency contract	(a)	<b>1,387</b>
Interest rate swap	(b)	<b>119</b>
		<b>1,506</b>

Notes:

- (a) During the year, the Group has entered into a forward currency contract to manage its exchange rate exposures. This forward contract is not designated for hedge purposes and is measured at fair value through profit or loss. Changes in the fair value of the non-hedging forward currency contract amounting to RMB1,387,000 were charged to the statement of profit or loss during the year.
- (b) During the year, the Group entered into an interest rate swap with a total notional amount of HK\$100,000,000 whereby the Group pays interest at a fixed rate of approximately 0.5% and receives interest at a variable rate equal to the HIBOR on the notional amount. The interest rate swap will mature in next year and is used to manage its interest rate exposures arising from bank loans at floating rates.

The interest rate swap is not designated for hedge purposes and is measured at fair value through profit or loss. Net changes in the fair value of the non-hedging interest rate swap amounting to RMB119,000 was charged to the statement of profit or loss during the year.

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## 24. Interest-Bearing Bank Borrowings

	Notes	31 December 2021			31 December 2020		
		Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
<b>Current</b>							
Bank loans – secured	(a), (b)	HIBOR+0.40 to HIBOR+0.65	On demand	81,760	LIBOR+0.35 to LIBOR+0.55	On demand	83,491
Bank loans – secured	(b)	-	-	-	LPR-2	On demand	10,000
Bank loans – unsecured		-	-	-	LPR-1.55 to LPR-0.3	On demand	54,900
Bank loans – unsecured		LPR-2.6 to LPR-1.5	On demand	200,000	-	-	-
Bank loans – unsecured	(a)	Fixed rate of 1.0	On demand	50,308	-	-	-
Bank loans – unsecured	(c)	Fixed rate of 1.9	2022	5,000	-	-	-
Bank loans – secured	(a), (b)	LIBOR+0.616	On demand	81,106	-	-	-
				418,174			148,391

	2021 RMB'000	2020 RMB'000
Analysed into:		
Within one year or on demand	418,174	148,391

### Notes:

- (a) As at 31 December 2021, except for the bank borrowings amounting to RMB131,414,000 (2020: RMB83,491,000) which was denominated in US\$, and RMB81,760,000 (2020: Nil) denominated in HK\$, all of the Group's bank borrowings were denominated in RMB.
- (b) As at 31 December 2021, time deposits of RMB195,000,000 (2020: RMB125,000,000) were pledged to secure bank borrowings of RMB162,866,000 (2020: RMB93,491,000).
- (c) As at 31 December 2021, the Group's bank borrowings of RMB5,000,000 was guaranteed by the Company's director Ms. Zhou Yaxian and her spouse Mr. Sha Shuming.

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## 25. Deferred Tax

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

### Deferred tax assets

	Deferred government grants <i>RMB'000</i>	Depreciation in excess of related depreciation allowance <i>RMB'000</i>	Accrued salary <i>RMB'000</i>	Impairment loss allowance against trade and other receivables <i>RMB'000</i>	Impairment provision against inventories <i>RMB'000</i>	Unrealised profits arising from intra-group transactions <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020	4,865	1,005	2,696	5,431	2,821	2,842	19,660
Deferred tax credited/(charged) to profit or loss during the year ( <i>note 10</i> )	(485)	896	182	735	540	(2,034)	(166)
At 31 December 2020 and 1 January 2021	4,380	1,901	2,878	6,166	3,361	808	19,494
Deferred tax credited/(charged) to profit or loss during the year ( <i>note 10</i> )	(519)	(954)	762	2,022	(1,555)	(391)	(635)
At 31 December 2021	3,861	947	3,640	8,188	1,806	417	18,859

### Deferred tax liabilities

	Depreciation in excess of related depreciation allowance <i>RMB'000</i>	Fair value adjustments arising from acquisition of subsidiaries <i>RMB'000</i>	Withholding tax <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020	92	10,132	12,106	22,330
Deferred tax credited to profit or loss during the year ( <i>note 10</i> )	(8)	(9,135)	(5,157)	(14,300)
Exchange realignment	(6)	–	–	(6)
At 31 December 2020 and 1 January 2021	78	997	6,949	8,024
Deferred tax charged/(credited) to profit or loss during the year ( <i>note 10</i> )	(78)	(111)	635	446
At 31 December 2021	–	886	7,584	8,470



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## 25. Deferred Tax (Continued)

### Deferred tax liabilities (Continued)

The Group has tax losses arising in Hong Kong of HK\$50,903,000 (2020: HK\$41,469,000), which are equivalent to RMB42,249,000 (2020: RMB36,879,000) 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 RMB156,691,000 (2020: RMB120,171,000) due to the 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 is 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 5% or 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 RMB2,361,070,000 (2020: RMB2,401,097,000) at 31 December 2021. In the opinion of the directors, the Company is able to control the timing of the reversal of the temporary difference and, accordingly, the Group has taken into consideration, among others, the probability the temporary difference being reversed in the foreseeable future, and recognised for withholding taxes that would be payable in the foreseeable future on distribution of unremitted earnings by the Company's subsidiaries established in Mainland China in respect of earnings generated.

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

## 26. Share Capital

	2021 HK\$'000	2020 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 (2020: 3,230,480,000) ordinary shares of HK\$0.01 each	32,305	32,305
Equivalent to RMB'000	27,807	27,807

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## 26. Share Capital (Continued)

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 2020, 31 December 2020, 1 January 2021 and 31 December 2021	3,230,480,000	32,305	10,233	27,807	98,081	125,888

## 27. Share Option Scheme

In order to attract and retain the eligible persons, to provide additional incentives to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 29 May 2020 (the "Adoption Date") 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 shall be valid and effective for a period of ten years commencing on 29 May 2020, 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 Adoption 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 available for issue under the Scheme as at the date of this report was 323,048,000 Shares, which represented 10% of the total number of issued Shares as at the Adoption Date and the date of approval of these financial statements. 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.

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## 27. Share Option Scheme (Continued)

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.

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

At 31 December 2021 and at the date of approval of these financial statements, the Company had no share options that were outstanding, granted, exercised, cancelled, or lapsed under the Scheme.

## 28. 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 the 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) a waiver of amounts due to related parties.

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## 29. Partly-Owned Subsidiary with Material Non-Controlling Interests

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

	2021	2020
Percentage of equity interest held by non-controlling interests of Guangdong Victory	20%	20%

	2021 RMB'000	2020 RMB'000
Loss for the year allocated to non-controlling interests of Guangdong Victory	(1,403)	(5,002)
Dividends paid to non-controlling interests of Guangdong Victory	–	–
Accumulated deficit balances of non-controlling interests at the reporting date of Guangdong Victory	1,403	–

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

	2021 RMB'000	2020 RMB'000
Revenue	1,753	1,912
Total expenses	(8,770)	(31,859)
Loss for the year	(7,017)	(29,947)
Total comprehensive loss for the year	(7,017)	(29,947)
Current assets	3,722	3,954
Non-current assets	13,532	14,251
Current liabilities	(28,151)	(21,756)
Non-current liabilities	(843)	(1,172)
Net cash flows used in operating activities	(4,590)	(2,488)
Net cash flows used in investing activities	(2,393)	(2,814)
Net cash flows from financing activities	6,966	6,000
Net (decrease)/increase in cash and cash equivalents	(17)	698

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### 30. 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 RMB9,601,000 (2020: RMB2,903,000) and RMB9,601,000 (2020: RMB2,903,000), respectively, in respect of lease arrangements for office and production premises.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2020	89,578	1,402
New bank borrowings	154,892	–
Repayment of bank borrowings	(90,703)	–
New leases	–	2,903
Lease payments	–	(1,532)
Interest expenses	–	117
Exchange realignment	(5,376)	(31)
At 31 December 2020 and 1 January 2021	<b>148,391</b>	<b>2,859</b>
New bank borrowings	<b>430,643</b>	–
Repayment of bank borrowings	<b>(157,236)</b>	–
New leases	–	<b>9,601</b>
Lease payments	–	<b>(2,939)</b>
Interest expenses	–	<b>282</b>
Exchange realignment	<b>(3,624)</b>	<b>(25)</b>
At 31 December 2021	<b>418,174</b>	<b>9,778</b>

(c) Total cash outflow for leases

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

	2021 RMB'000	2020 RMB'000
Within operating activities	<b>2,420</b>	2,709
Within financing activities	<b>2,939</b>	1,532
	<b>5,359</b>	4,241

### 31. Contingent Liabilities

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

### 32. Pledge of Assets

Details of the Group's assets pledged for the Group's trade and bills payables and interest-bearing bank borrowings are included in notes 21 and 24 to the financial statements, respectively.



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### 33. COMMITMENTS

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Buildings	119,460	110,339
Plant and machinery	9,068	7,350
	<b>128,528</b>	117,689

### 34. 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	2021 RMB'000	2020 RMB'000
Company controlled by a director of the Company:			
Continuing connected transactions:			
Sales of products	(i)	4,787	3,437
Sales of calcium oxide	(i)	1,965	1,954
Purchases of cattle hides	(ii)	175,735	152,119
Rent of production premises	(ii)	1,219	2,437
Lease out of office	(ii)	230	–
Administrative support and liaising services	(ii)	403	180
Connected transactions:			
Recognition of right-of-use assets in relation to the tenancy agreements	(ii)	7,990	–
Companies controlled by a spouse of a director of the Company:			
Continuing connected transactions:			
Purchases of packing and printing materials	(ii)	34,428	36,559

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.

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### 34. Related Party Disclosures (Continued)

(b) Balances with related parties

Balances with related parties are detailed in notes 18, 21 and 24 to the financial statements.

(c) Compensation of key management personnel

	2021 RMB'000	2020 RMB'000
Fees	954	943
Salaries, allowances and benefits in kind	10,904	10,418
Discretionary performance-related bonuses	3,360	2,146
Retirement benefit contributions	107	116
<b>Total compensation paid to key management personnel</b>	<b>15,325</b>	<b>13,623</b>

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

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

### 35. Financial Instruments by Category

Except for the derivative financial instruments which are measured at fair value through profit or loss (as disclosed in note 23), the financial assets and liabilities of the Group as at 31 December 2021 were financial assets at amortised cost and financial liabilities at amortised cost, respectively.

As at 31 December 2020, all financial assets and liabilities of the Group were financial assets at amortised cost and financial liabilities at amortised cost, respectively.

### 36. Transfers of Financial Assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2021, 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 2021, the aggregate carrying amount of the Endorsed Bills was RMB3,070,000 (2020: RMB18,416,000).

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### 36. Transfers of Financial Assets (continued)

Transferred financial assets that are derecognised in their entirety

At 31 December 2021, 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 with 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 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 2021, the aggregate carrying amount of the Derecognised Bills was RMB4,000,000 (2020: RMB1,880,000).

During the year ended 31 December 2021, 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.

### 37. 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 fair values of the non-current portion of pledged deposits and time deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair value of unlisted financial assets at fair value through profit or loss issued by banks in Mainland China were determined based on the expected internal rate of return of the underlying financial products that are not supported by observable market prices or rates.

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### 37. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

The Group enters into derivative financial instruments with financial institutions with AAA credit ratings. Derivative financial instruments, including interest rate swap and forward currency contract, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of interest rate swap and forward currency contract are the same as their fair values.

As at 31 December 2021, the mark-to-market value of the derivative liability position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value.

#### Fair value hierarchy

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

#### Assets measured at fair value

The Group did not have any financial assets measured at fair value as at 31 December 2021 and 2020.

The movements in fair value measurements within Level 3 during the year are as follows:

	2020 RMB'000
Financial assets at fair value through profit or loss	
At 1 January	10,139
Total gains recognised in the statement of profit or loss included in other income and gains, net	2,260
Purchases	348,000
Disposal	(360,399)
At 31 December	–

For the year end 31 December 2021, there is no transaction of financial assets measured at fair value.

#### Liabilities measured at fair value

At 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	1,506	–	1,506

The Group did not have any financial liabilities measured at fair value as at 31 December 2020.

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 (2020: Nil).

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### 38. Financial Risk Management Objectives and Policies

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

The Group also enters into derivative transactions, including principally interest rate swap and forward currency contract. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its source of finance.

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, time deposits and pledged deposits. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings at floating rate. To manage its interest cost, the Group entered into an interest rate swap in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2021, after taking into the effect of the interest rate swap, approximately 33% (2020: Nil) of the Group's interest-bearing bank borrowings bore interest at fixed rates.

At 31 December 2021, it was estimated that if interest rates at those dates had been 100 (2020: 100) basis points higher/lower, with all other variables held constant, there would have been a decrease/increase of RMB2,816,000 (2020: RMB1,484,000) in the Group's profit before tax and a decrease/increase of RMB2,816,000 (2020: RMB1,484,000) in the Group's equity for the year ended 31 December 2021 (through the impact on floating rate borrowings held by the Group at the end of the reporting period after taking into account the effect of the interest rate swaps).



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### 38. 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. The Group has entered into forward currency contract to mitigate the exchange rate risk of US\$ against RMB at the bank borrowing maturity date. The change in value of this forward currency contract is expected to offset the exchange rate difference of the US\$ denominated bank borrowing at the bank borrowing maturity date.

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 of 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 of 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 entered into forward currency contract in an effort to reduce the Group's exposure to foreign currency exchange risk of its bank borrowings denominated in US\$ as described above. The Group, however has not entered into any hedging transactions to reduce the Group's exposure to foreign currency risk resulting from trade receivables denominated in US\$. 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 RMB567,000 (2020: RMB358,000) and decreased/increased the Group's equity by RMB38,564,000 (2020: RMB36,094,000) during the year ended 31 December 2021.

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### 38. 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 2021

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	–	–	–		167,660	167,660
Bills receivable	62,638	–	–		–	62,638
Financial assets included in prepayments, other receivables and other assets						
– Normal**	37,096	–	–		–	37,096
Pledged deposits						
– Not yet past due	205,000	–	–		–	205,000
Cash and cash equivalents						
– Not yet past due	998,897	–	–		–	998,897
Time deposits						
– Not yet past due	155,500	–	–		–	155,500
	1,459,131	–	–		167,660	1,626,791

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**38. Financial Risk Management Objectives and Policies (Continued)**

Credit risk (Continued)

**Maximum exposure and year-end staging (Continued)**

As at 31 December 2020

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	–	–	–	–	140,298	140,298
Bills receivable	54,835	–	–	–	–	54,835
Financial assets included in prepayments, other receivables and other assets						
– Normal**	32,555	–	–	–	–	32,555
Pledged deposits						
– Not yet past due	179,660	–	–	–	–	179,660
Cash and cash equivalents						
– Not yet past due	717,285	–	–	–	–	717,285
Time deposits						
– Not yet past due	280,000	–	–	–	–	280,000
	1,264,335	–	–	–	140,298	1,404,633

\* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18.

\*\* 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 18 to the financial statements.

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### 38. 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 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 2021

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years RMB'000	Total RMB'000
Lease liabilities	4,464	3,702	2,195	10,361
Interest-bearing bank borrowings	423,227	–	–	423,227
Trade and bills payables	48,978	–	–	48,978
Financial liabilities included in other payables and accruals	88,667	–	–	88,667
	565,336	3,702	2,195	571,233

#### At 31 December 2020

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years RMB'000	Total RMB'000
Lease liabilities	1,541	807	1,138	3,486
Interest-bearing bank borrowings	148,940	–	–	148,940
Trade and bills payables	130,838	–	–	130,838
Financial liabilities included in other payables and accruals	81,411	–	–	81,411
	362,730	807	1,138	364,675

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### 38. 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 2021 and 2020.

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

	2021 RMB'000	2020 RMB'000
Interest-bearing bank borrowings (note 24)	418,174	148,391
Lease liabilities (note 15(b))	9,778	2,859
Less: Cash and cash equivalents	(998,897)	(717,285)
Time deposits	(155,500)	(280,000)
Pledged deposits	(205,000)	(179,660)
Net cash	(931,445)	(1,025,695)
Equity attributable to owners of the Company	2,658,224	2,688,718
Gearing ratio	N/A	N/A
Total equity	2,655,588	2,688,718
Debt-to-equity ratio	16.1%	5.6%



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### 39. 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:

	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT ASSETS</b>		
Investments in subsidiaries	168,139	173,083
<b>CURRENT ASSETS</b>		
Amounts due from subsidiaries	173,283	165,368
Prepayments, other receivables and other assets	78	83
Bank balances	505	691
Total current assets	173,866	166,142
<b>CURRENT LIABILITIES</b>		
Amounts due to subsidiaries	43,744	37,773
Other payables	840	1,025
Total current liabilities	44,584	38,798
<b>NET CURRENT ASSETS</b>	129,282	127,344
Net assets	297,421	300,427
<b>EQUITY</b>		
Issued capital	27,807	27,807
Reserves ( <i>note</i> )	269,614	272,620
Total equity	297,421	300,427

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**39. Statement of Financial Position of the Company (Continued)***Note:*

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

	<b>Share premium account</b> <i>RMB'000</i>	<b>Contributed surplus</b> <i>RMB'000</i>	<b>Exchange fluctuation reserve</b> <i>RMB'000</i>	<b>Retained profits</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2020	98,081	172,535	(77,730)	172,292	365,178
Profit for the year	–	–	–	99,671	99,671
Exchange realignment	–	–	(15,145)	–	(15,145)
Total comprehensive income/(loss) for the year	–	–	(15,145)	99,671	84,526
Final 2019 dividend and special dividend	–	–	–	(177,084)	(177,084)
At 31 December 2020 and 1 January 2021	<b>98,081</b>	<b>172,535</b>	<b>(92,875)</b>	<b>94,879</b>	<b>272,620</b>
Profit for the year	–	–	–	<b>166,539</b>	<b>166,539</b>
Exchange realignment	–	–	<b>(8,264)</b>	–	<b>(8,264)</b>
Total comprehensive income/(loss) for the year	–	–	<b>(8,264)</b>	<b>166,539</b>	<b>158,275</b>
Final 2020 dividend and special dividend	–	–	–	<b>(161,281)</b>	<b>(161,281)</b>
At 31 December 2021	<b>98,081</b>	<b>172,535</b>	<b>(101,139)</b>	<b>100,137</b>	<b>269,614</b>

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### 39. 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 <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	10,233	195,879	200,292	406,404
Profit for the year	–	–	112,076	112,076
Total comprehensive income for the year	–	–	112,076	112,076
Final 2019 dividend and special dividend	–	–	(193,829)	(193,829)
At 31 December 2020 and 1 January 2021	<b>10,233</b>	<b>195,879</b>	<b>118,539</b>	<b>324,651</b>
Profit for the year	–	–	<b>200,650</b>	<b>200,650</b>
Total comprehensive income for the year	–	–	<b>200,650</b>	<b>200,650</b>
Final 2020 dividend and special dividend	–	–	<b>(193,829)</b>	<b>(193,829)</b>
At 31 December 2021	<b>10,233</b>	<b>195,879</b>	<b>125,360</b>	<b>331,472</b>

These reserve accounts comprise the Company's reserves available for distribution amounting to HK\$135,593,000 (2020: HK\$128,772,000).

### 40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2022.

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.

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
<b>Year ended 31 December</b>					
<b>RESULTS</b>					
<b>REVENUE</b>	<b>1,168,099</b>	961,623	997,500	899,016	1,007,991
Cost of sales	<b>(857,608)</b>	(722,577)	(765,312)	(586,470)	(767,303)
Gross profit	<b>310,491</b>	239,046	232,188	312,546	240,688
Other income and gains, net	<b>53,550</b>	70,645	60,044	36,836	34,942
Selling and distribution expenses	<b>(36,569)</b>	(32,655)	(35,425)	(39,686)	(43,621)
Administrative expenses	<b>(157,715)</b>	(163,748)	(167,272)	(202,630)	(158,054)
Finance costs	<b>(5,335)</b>	(2,493)	(1,678)	(3,545)	(8,726)
Share of profit and loss of an associate	<b>(1,432)</b>	(2,357)	(4,002)	(7,430)	102
<b>PROFIT BEFORE TAX</b>	<b>162,990</b>	108,438	83,855	96,091	65,331
Income tax expense	<b>(42,974)</b>	(21,669)	(17,262)	(24,907)	(8,965)
<b>PROFIT FOR THE YEAR</b>	<b>120,016</b>	86,769	66,593	71,184	56,366
Profit attributable to:					
Owners of the Company	<b>122,652</b>	90,754	75,444	80,259	68,794
Non-controlling interests	<b>(2,636)</b>	(3,985)	(8,851)	(9,075)	(12,428)
	<b>120,016</b>	86,769	66,593	71,184	56,366
<b>As at 31 December</b>					
<b>ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS</b>					
<b>TOTAL ASSETS</b>	<b>3,312,070</b>	3,130,200	3,083,502	3,117,666	3,293,956
<b>TOTAL LIABILITIES</b>	<b>(656,482)</b>	(441,482)	(307,075)	(303,400)	(445,537)
<b>NON-CONTROLLING INTERESTS</b>	<b>2,636</b>	–	(3,985)	(12,686)	(20,999)
	<b>2,658,224</b>	2,688,718	2,772,442	2,801,580	2,827,420