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中國升海集團有限公司

China Shenghai Group Limited

(formerly known as China Shenghai Food Holdings Company Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1676)

**UNAUDITED ANNUAL RESULTS FOR THE
YEAR ENDED 31 DECEMBER 2021**

The Board is pleased to announce the unaudited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2021 (“**Year 2021**” or the “**Reporting Year**”), together with the audited comparative figures for the corresponding period in 2020.

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021**

(Expressed in Renminbi)

	<i>Notes</i>	2021 RMB'000 (Unaudited)	2020 RMB'000 (Audited)
Revenue	4	86,506	162,718
Cost of sales		(76,587)	(132,002)
Gross profit		9,919	30,716
Other income and other (losses)/gains, net	5	(3,483)	1,100
Selling and distribution expenses		(31,380)	(35,878)
Administrative expenses		(35,750)	(19,167)
Expected credit loss on financial assets		(10,000)	(3,309)
Finance costs	6	(1,558)	(444)
Other expenses		(3,938)	(3,358)
Loss before income tax	7	(76,190)	(30,340)
Income tax expense	8	(1,347)	(1,915)
Loss for the year		(77,537)	(32,255)
Other comprehensive income for the year, net of tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences arising on translation of foreign operations		535	841
Total comprehensive loss for the year		(77,002)	(31,414)

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021**

(Expressed in Renminbi)

	<i>Notes</i>	2021 <i>RMB '000</i> (Unaudited)	2020 <i>RMB '000</i> (Audited)
Loss for the year attributable to:			
- the owners of the Company		(77,315)	(32,255)
- non-controlling interests		(222)	-
		<u>(77,537)</u>	<u>(32,255)</u>
Total comprehensive loss for the year attributable to:			
- the owners of the Company		(76,793)	(31,414)
- non-controlling interests		(209)	-
		<u>(77,002)</u>	<u>(31,414)</u>
Loss per share – Basic and Diluted (RMB)	10	<u>(0.7656)</u>	<u>(0.3226)</u>

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021**

(Expressed in Renminbi)

		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		33,996	56,979
Deferred tax assets		-	731
Rental deposits		100	477
Deposits paid to suppliers		5,429	1,479
Prepayments		3,500	3,500
		43,025	63,166
Current assets			
Inventories	11	61,737	75,452
Trade receivables	12	131,266	133,482
Deposits paid to suppliers		2,838	7,821
Deposits, prepayments and other receivables		11,039	6,392
Cash and cash equivalents		176,402	213,479
		383,282	436,626
Current liabilities			
Trade payables	13	2,482	16,353
Accruals, deposits received and other payables		17,466	15,467
Debentures		6,213	6,287
Lease liabilities		1,421	2,916
Provision for taxation		3,423	3,878
		31,005	44,901
Net current assets		352,277	391,725
Total assets less current liabilities		395,302	454,891

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

(Expressed in Renminbi)

	<i>Notes</i>	2021 RMB'000 (Unaudited)	2020 RMB'000 (Audited)
Non-current liabilities			
Debentures		14,990	6,959
Lease liabilities		1,221	1,515
		16,211	8,474
Net assets		379,091	446,417
CAPITAL AND RESERVE			
Share capital	14	9,388	8,723
Reserves		369,912	437,694
		379,300	446,417
Non-controlling interests		(209)	-
Total equity		379,091	446,417

NOTES:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as revised and consolidated) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 18 July 2017. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company’s principal place of business is located at 5th floor, No.5 Factory, Mexi Road, Huandong Water, Tongon District, Hui Industrial Park, Xiamen City, Fujian Province, PRC.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries (together with the Company collectively refer to as “**Group**”) is packaging and sales of seafood products and procurement and sales of fast moving consumer goods and others.

The directors consider the Company’s immediate and ultimate holding company is Precisely Unique Limited, which is incorporated in the British Virgin Islands and the ultimate controlling shareholder is Mr. Liu Rongru.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRS**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is Hong Kong dollar (“**HKD**”), while the financial statements are presented in Renminbi (“**RMB**”) as the Group’s main operations are in the PRC and the functional currency of the Group’s major operating subsidiaries in RMB.

3. APPLICATION OF NEW AND REVISED HKFRSS

(a) Application of new and revised HKFRSSs

The HKICPA has issued a number of new and revised HKFRSSs that are first effective for annual periods beginning on or after 1 January 2021. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(b) New and revised HKFRSSs in issue but not yet effective

The Group has not early applied any new and revised HKFRSSs that have been issued but are not yet effective for the financial year beginning 1 January 2021. These new and revised HKFRSSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Business Combination - Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSSs 2018 – 2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements - Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 Income Taxes - Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKFRS 16 COVID-19 Related Rent Concessions beyond 30 June 2021	1 April 2021

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes.

Revenue is recognised when performance obligation is satisfied. The Group's revenue is derived from selling goods and providing services with revenue recognised at a point in time when control of the goods or services has transferred to the customer. For packaging and sales of dried seafood, algae and fungi and seafood snacks, the control is transferred when the goods are delivered to the customer. For procurement and sales of fast moving consumer goods and others, the control is transferred when the goods to which the procurement services related are shipped.

Operating segment information

In a manner consistent with how the Group manages its business and the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable and operating segments, namely (i) packaging and sales of marines products segment and (ii) all other segment.

Disaggregated revenue information

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Revenue from contract customers		
Sales of marine products	84,055	155,553
Procurement and sales of fast moving consumer goods and others	2,451	7,165
	86,506	162,718
 Geographical markets based on location of customers		
Mainland China	84,055	155,553
Hong Kong	1,118	236
South Korea	1,333	6,929
	86,506	162,718
 Timing of revenue recognition		
Sales at point in time	86,506	162,718

Unsatisfied performance obligations

For sales of marine products and procurement and sales of fast moving consumer goods and others, the performance obligation are satisfied and revenue was recognised at a point in time when control of the goods has transferred to the customer. No unsatisfied performance obligation at the end of the each reporting years.

Information about major customers

No customer contributed 10% or more of the Group's revenue during the year ended 31 December 2021. (2020: Nil)

Information about geographical areas

The Group's sales by geographical areas, based on the delivery destination of the goods as requested by the customers, were all domestic and within the PRC, Hong Kong and South Korea.

The Group's non-current assets other than financial instruments mainly represent plant and equipment and prepaid lease payments are located in the PRC.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2021 (unaudited)

	Packaging and sales of marine products segment RMB'000 (Unaudited)	All other segments RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue from external customer			
From external customers	<u>84,055</u>	<u>2,451</u>	<u>86,506</u>
Segment results	<u>(45,659)</u>	<u>(9,243)</u>	<u>(54,902)</u>
Other income and other (losses)/gains			8
Finance costs			(1,372)
Corporate expenses			<u>(19,924)</u>
Loss before taxation			<u>(76,190)</u>

For the year ended 31 December 2020 (audited)

	Packaging and sales of marine products segment <i>RMB'000</i> (Audited)	All other segments <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Revenue from external customer			
From external customers	<u>155,553</u>	<u>7,165</u>	<u>162,718</u>
Segment results	<u>(25,887)</u>	<u>3,179</u>	<u>(22,708)</u>
Other income and other (losses)/gains			187
Finance costs			(229)
Corporate expenses			<u>(7,590)</u>
Loss before taxation			<u>(30,340)</u>

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by or loss from each segment without allocation of certain other income, other gains and losses, certain finance costs and corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Interest income on bank deposits	655	857
Rental income	17	55
Government grants	-	145
Loss on disposal of plant and equipment	(4,191)	-
Gain on early termination of lease	28	-
Others	<u>8</u>	<u>43</u>
Total	<u>(3,483)</u>	<u>1,100</u>

6. FINANCE COSTS

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Interest on lease liabilities	186	215
Interest on debentures	1,372	229
Total	1,558	444

7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Auditors' remuneration	748	964
Costs of inventories	73,302	129,897
Write down of inventories	3,285	2,105
Research expenditure	652	578
Depreciation charge		
- Property, plant and equipment	17,682	17,453
Impairment loss of property, plant and equipment	-	675
Impairment loss on trade receivables	9,000	3,292
Impairment loss on deposits paid to suppliers	1,000	17
Operating lease rental in respect of:		
- Short-term lease expenses	514	507
Staff costs (including directors' emoluments)		
- Salaries and wages	24,075	29,634
- Bonus	4,506	491
- Retirement scheme contribution	2,906	2,086

8. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Current tax		
Tax for the year	-	434
Under-provision in respect of prior year	616	149
Deferred tax		
Current year	731	1,332
Total	1,347	1,915

9. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

10. LOSS PER SHARE

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Losses		
Loss for the purpose of calculating basic and diluted loss per share	(77,315)	(32,255)

	2021 <i>Number'000</i> (Unaudited)	2020 <i>Number'000</i> (Audited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share (note)	100,986	100,000

Note:

- (i) Diluted loss per share were the same as the basic loss per share as the Group had no dilutive potential shares during the years ended 31 December 2021 and 2020.
- (ii) On 25 May 2020, the share consolidation resolution has been passed by the Company's shareholders in the AGM. On 26 May 2020, every ten issued and unissued shares of HK\$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK\$0.10 each in the share capital of the Company.

The weighted average number of ordinary shares in issue during the year ended 31 December 2021 and 2020 have been retrospectively adjusted for the share consolidation which came into effect on 26 May 2020.

11. INVENTORIES

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Raw materials	1,217	2,796
Finished goods	60,520	72,656
	61,737	75,452

During the year, written-down of inventories amounting to RMB3,285,000 has been made in 2021 (2020: RMB2,105,000) and recognised in other expenses in consolidated profit or loss.

12. TRADE RECEIVABLES

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Trade receivables		
- Sales of marine products	144,383	129,232
- Procurement and sales of fast moving consumer goods and others	463	8,830
	<u>144,846</u>	<u>138,062</u>
Less: impairment loss	<u>(13,580)</u>	<u>(4,580)</u>
	<u>131,266</u>	<u>133,482</u>

Based on the invoice dates, the ageing analysis of the Group's gross trade receivables are as follows:

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
0 – 30 days	6,328	20,677
31 – 60 days	5,703	24,847
61 – 90 days	5,311	18,747
91 – 120 days	4,456	11,515
121 – 365 days	123,048	62,276
	<u>144,846</u>	<u>138,062</u>

The movement in the allowance for impairment of trade receivables is as follows:

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Carrying amount at 1 January	4,580	1,288
Expected credit losses recognised	<u>9,000</u>	<u>3,292</u>
Carrying amount at 31 December	<u>13,580</u>	<u>4,580</u>

The directors consider that the carrying amounts of trade receivables approximate their fair values.

13. TRADE PAYABLES

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
Trade payables		
Purchase of marine products	2,482	7,443
Purchase of fast moving consumer goods	<u>-</u>	<u>8,910</u>
	<u>2,482</u>	<u>16,353</u>

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally 30 – 60 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at 31 December 2021 and 2020 are as follows:

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
0 – 30 days	2,482	11,060
31 – 60 days	<u>-</u>	<u>5,293</u>
	<u>2,482</u>	<u>16,353</u>

The trade payables are short-term and hence the carrying values of the Group's trade payables are considered a reasonable approximate of fair value.

14 SHARE CAPITAL

	Note	2021		2020	
		Number of shares '000 (Unaudited)	Amount RMB'000 (Unaudited)	Number of shares '000 (Audited)	Amount RMB'000 (Audited)
Authorised:					
At 1 January		1,000,000	87,412	10,000,000	87,412
Share consolidation	(i)	-	-	(9,000,000)	-
At 31 December		<u>1,000,000</u>	<u>87,412</u>	<u>1,000,000</u>	<u>87,412</u>

	Note	2021		2020	
		Number of shares '000 (Unaudited)	Amount RMB'000 (Unaudited)	Number of shares '000 (Audited)	Amount RMB'000 (Audited)
Issued and fully paid:					
At 1 January		100,000	8,723	1,000,000	8,723
Share consolidation	(i)	-	-	(900,000)	-
Subscription of new shares under general mandate	(ii)	8,000	665	-	-
At 31 December		<u>108,000</u>	<u>9,388</u>	<u>100,000</u>	<u>8,723</u>

- (i) On 25 May 2020, the share consolidation resolution has been passed by the Company's shareholders in the AGM. On 26 May 2020, every ten issued and unissued shares of HK\$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK\$0.10 each in the share capital of the Company. The authorised share capital of the Company became HK\$100,000,000 divided into 1,000,000,000 consolidated shares of par value of HK\$0.10 each, of which 100,000,000 consolidated shares of par value of HK\$0.10 each was in issue.
- (ii) On 5 November 2021, the Company and the subscriber entered into a subscription agreement under which the Company agreed to issue and allot and the subscriber agreed to subscribe, 8,000,000 subscription shares at the subscription price of HK\$1.5 per subscription share. The subscription was completed on 17 November 2021. The net proceeds from the subscription are approximately HK\$11.6 million. Details of the

subscription were disclosed in announcements of the Company dated 5 November 2021 and 18 November 2021.

15 EVENTS AFTER THE REPORTING PERIOD

OUTBREAK OF COVID-19

Since the outbreak of Coronavirus Disease 2019 (“COVID-19”), the prevention and control of the COVID-19 has been going on throughout the country. The COVID-19 has certain impacts on the business operation and customer demand for the Group’s products has further declined, which will directly affect the Group’s turnover and performance. Up to the date of the report, the financial effect cannot be estimate. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group.

FORMATION OF A JOINT VENTURE COMPANY

On 16 March 2022, the Company and CS Business Solutions Limited entered into an agreement (“Agreement”) in relation to the formation of the JV Company in the Hong Kong to be engaged in the operation of B2B trading platform of high-demand mobile phones and electronic components and B2B supply chain financing business. The JV Company will be owned as to 55% by the Company and 45% by CS Business Solutions Limited. Pursuant to the Agreement, the capital of the JV Company will be contributed as to HK\$5,500,000 by the Company and HK\$4,500,000 by CS Business Solutions Limited. CS Business Solutions Limited is ultimately owned as to 99.98% and 0.02% equity interest by Lau Shek Yau and Lau Ying Cynthia respectively. Lau Shek Yau is interested in 8,000,000 shares of the Company, representing approximately 7.41% of the total issued share capital of the Company.

Details of the above are set out in the Company’s announcements and circulars dated 16 March 2022 and 22 March 2022 respectively.

SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 28 March 2022, the Company and the subscriber entered into a subscription agreement under which the Company agreed to issue and allot and the subscriber agreed to subscribe, 12,000,000 subscription shares at the subscription price of HK\$1.5 per subscription share. The subscription was not yet completed on date of this announcement.

Details of the subscription were disclosed in announcement of the Company dated 28 March 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group sells dried seafood, algae and fungi, and seafood snacks in the PRC. The Group (i) sources high quality raw and processed raw materials, (ii) sub-contracts processing of the unprocessed raw materials to third parties, (iii) packages products at its own packaging facilities or through its sub-contractors, and (iv) sells packaged products under its own brand “Wofan (沃豐)”. The Group also sells dried seafood, algae and fungi without packaging. The Group also engaged in the procurement and sales of fast moving consumer goods since early 2020.

Sporadic outbreak of Coronavirus Disease 2019 (“COVID-19”) throughout 2021 alongside other uncertainties such as fluctuation of the property markets and reduced of local government spending have negatively affected the consumer confidence over the past year. The shrinking demand has significantly impacted on both turnover and the gross profit margin of the Group. During the Reporting Year, the Group’s revenue fell by approximately 46.8% to approximately RMB86.5 million from approximately RMB162.7 million for 2020. Gross profit for the Reporting Year drastically fell by 67.8% to approximately RMB9.9 million (2020: approximately RMB30.7 million) while gross profit margin fell to 11.4% (2020: 18.9%). As the results of the sharp declines of the revenue and gross profit margin, the Group continued to recorded a loss of approximately RMB77.5 million (2020: loss of RMB32.2 million).

FOOD BUSINESS

The Group has a comprehensive product portfolio with different raw materials, flavouring and packaging and considers each product to be distinctive. The Group seeks to differentiate itself from its competitors by providing a broad and convenient choice of safe and quality products, which creates additional opportunities to drive the overall sales. During the Reporting Period, the Group offered over 100 types of dried seafood, 30 types of algae and fungi, and 60 types of seafood snacks.

The Group’s products are sold through supermarkets, trading companies, convenience stores and other sales channels, such as food companies, gift stores and e-commerce retailers.

The Group has seen continuous decline of demand for its food products over the past year. Sporadic outbreak of COVID-19, adverse weather in certain cities as well as uncertainties of economic outlook have curb the consumer confidence in particular in the second half of 2021. Despite enhanced marketing efforts, increasing competition in the snack market and slow inventory turnover led to worsening sales performance of the Group. The Group’s revenue from food business decreased by approximately 45.9% from approximately RMB155.6 million for 2020 to approximately RMB84.1 million during the Reporting Period, and gross profit from this segment fell 68.2% from RMB23.6 million during 2020 to RMB7.5 million during the Period.

FAST MOVING CONSUMER GOODS AND OTHER BUSINESS

In early 2020, the Group began our new fast moving consumer goods business, which mainly involves in the sales of cosmetics, daily necessities, fashion and accessories selling to Hong Kong and South Korea from China. As a procurement agent, the Group sources for and sells fast moving consumer goods that suit the customers' specific requirements as stated in the sale contracts. As the international supply chain continued to improve and the strong spending following the apex of COVID-19 lockdown gradually cooled down in the second half of the Reporting Year, the orders for the Group's procurement services has slowed down. During the Reporting Year, the Group's fast moving consumer goods business decreased to RMB2.5 million from RMB7.2 million in 2020.

Operating results and financial review

Revenue

During the Reporting Period, the Group's revenue decreased by approximately 46.8% to approximately RMB86.5 million from approximately RMB162.7 million for the year ended 31 December 2020, primarily due to decreases in both sales volume and average selling prices.

The table below sets out a breakdown of the Group's revenue categorized by product types during the Reporting Year:

	Year ended 31 December			
	2021 <i>RMB'000</i>	% to total revenue	2020 <i>RMB'000</i>	% to total revenue
Food Business	84,055	97.2%	155,553	95.6%
Fast moving consumer goods and other business	<u>2,451</u>	2.8%	<u>7,165</u>	4.4%
Total	<u>86,506</u>		<u>162,718</u>	

Gross profit and gross profit margin

Gross profit represents our revenue less our cost of sales, and our gross profit margin represents gross profit divided by revenue, expressed as a percentage. The following table sets forth the gross profit and gross profit margin by product category for the Period.

	Year ended 31 December			
	2021 <i>RMB'000</i>	Gross profit margin (%)	2020 <i>RMB'000</i>	Gross profit margin (%)
Food Business	7,468	8.9%	23,551	15.1%
Fast moving consumer goods and other business	<u>2,451</u>	100%	<u>7,165</u>	100%
Total	<u>9,919</u>	11.4%	<u>30,716</u>	18.9%

The Group's gross profit margin was approximately 11.4% and approximately 18.9% during the Period and for the corresponding period of last year. The increase in gross profit margin was mainly driven by the increasing proportion of profit from fast moving consumer good business which has a higher gross profit margin during the Period.

Other income and other (losses)/gains, net

Other income represents rental income generated from the seaweed farms located in Xiapu, the PRC, interest income from bank deposits, government grant and loss on disposal of plant and equipment.

Selling and distribution expenses

Selling and distribution expenses primarily consist of salaries and employee benefit expenses for employees engaging in the sales and promotion activities, transportation expenses, advertising and promotion expenses, rental expenses and other expenses. The decrease was mainly due to tightened cost control on promotion and advertising activities during the Year.

Administrative expenses

Administrative expenses primarily consist of salaries and employees benefit expenses, rental expenses, office expenses, depreciation and others. The increase was mainly due to the increase in headquarters expenses during the Year.

Income tax expenses

Income tax expense primarily consists of Enterprise Income Tax, the applicable tax rate of which being 25%. For the year ended 31 December 2021 and 2020, income tax expense were approximately RMB1.3 million and RMB1.9 million, respectively.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), we are not subject to any income tax in the Cayman Islands or the BVI.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2021 and 2020.

Liquidity and financial resources and capital structures

Cash flows

During the Reporting Year, the Group funded its working capital and other capital requirements principally by cash generated from our operating activities.

Net current assets

Net current assets decreased from approximately RMB391.7 million as at 31 December 2020 to approximately RMB352.3 million as at 31 December 2021. The decrease was primarily attributable to the decrease in cash and cash equivalents.

Cash and cash equivalent and bank borrowings

As at 31 December 2021, cash and cash equivalents of the Group was approximately RMB176.4 million, as compared to approximately RMB213.5 million as at 31 December 2020 and the Group has no bank borrowings.

Gearing ratio

As at 31 December 2021, the gearing ratio (calculated by total debts divided by the total equity as at the end of the year) was 0.056 (31 December 2020: 0.029).

Capital expenditures

For the year ended 31 December 2021, the Group’s capital expenditure amounted to approximately RMB4.9 million (Year ended 31 December 2020: approximately RMB7.2 million).

Pledge of assets

As at 31 December 2021, the Group did not pledge any assets.

Significant investment, material acquisitions and disposals of subsidiaries and associated companies

There was no significant investment, material acquisition and disposal of subsidiaries by the Company during the Reporting Year. The Group currently has no plan to make any substantial investment in or acquisition of capital assets, but will continue to seek for potential investment or acquisition opportunities according to the Group's development needs.

Exchange risk exposure

The Group mainly operates in the PRC and most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the Reporting Year.

Employees

As at 31 December 2021, the Group had 313 full time employees in total (31 December 2020: 486). The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Final dividend

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 to the shareholders.

Events after the reporting period

Except for disclosed under the heading of "Events after the Reporting Period" of this announcement, there were no important events affecting the Group, which occurred after the end of the reporting period and up to the date of this announcement.

Outlook

Mr. Li Keqiang, Premier of the Central Government has set China's 2022 GDP growth at 4.5%. The goal is generally considered reasonable. As the geopolitical tension arisen from Russian-Ukraine continues to advance, China's economy is considered to be relatively stable. However, consumer spending is potentially to be further crippled by the triple pressure – shrinking spending, supply shock and weakening expectation. Fluctuation in property markets and policy reforms in certain industries such as internet and education have significantly impacted to the employment rate and income of the middle class. What is more is that Omicron has caused a relatively extensive outbreak since 2021. Major cities such as Shanghai and Shenzhen have implemented temporarily stringent control of the spread. The dried seafood, algae and fungi, and seafood snacks that the Group offers targets mid-to-high-end customers, weakened consumer confidence is expected to pose extensive impact on the sales of the Group's food business.

With the weakening consumer confidence, the improving global supply chain and the government's strategic focus on the domestic demand (economic dual circulation), the Group maintains a cautiously optimistic view on its low-cost fast moving consumer good business. To optimize its capacity on supply chain related services, the Company has entered into an agreement to form a JV company which is owned 55% to the Company and 45% to CS Business Solutions on 16 March 2022. With a total registered capital of HK\$10 million, the new JV will be engaged in the operation of B2B trading platform of high-demand mobile phones and electronic components and B2B supply chain financing business.

The Group will continue to keep abreast of the market conditions and identify opportunities to further diversify its sources of income, so as to stabilize the financial performance of the Group.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this announcement, in the opinion of the Board, the Company has complied with the CG Code except the following deviations:

Code provision A.2.1 of the Code, which stipulates that the roles of chairman and chief executive officer should be separated. The joint-chairman and the chief executive officer of the Company is Mr. Liu Rongru. Nevertheless, the Board considers that this structure will not impair the balance of power and the authority of the Board. The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors, with independent non-executive Directors representing half of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board. Mr. Liu Rongru is the founder of the Group and he is responsible for the overall strategic planning and management of the Group. He has played an important role during the Group's expansion. Mr. Liu Rongru has extensive experience in the seafood industry, having been engaged in the seafood business for over 20 years. At present, the Board believes that it is beneficial to the management and development of the Group's businesses for Mr. Liu Rongru to be both the chairman and chief executive officer as it helps to facilitate the Board's decision-making.

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the Audit, Remuneration, Nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the Committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairmen and members of the Audit, Remuneration and Nomination committees of the Company could not attend the annual general meeting of the Company held in May 2021.

Code provision A.2.7 of the CG Code requires that the chairman of the Board shall at least annually hold meetings with Independent Non-executive Directors without the presence of other Directors. As Mr. Liu Rongru serves as the Joint-Chairman and Executive Director concurrently, the code provision does not apply and the Company deviates from such code provision. In addition, the Chairman of the Board is of the view that, the Independent Non-executive Directors can express their opinions to all Executive Directors more directly and effectively at the Board meetings, hence the Board is of the view that the deviation from the code provision does not have material impact on the operation of the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has since 22 June 2017 adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code during the year.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an Audit Committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The Audit Committee comprises three Independent Non-executive Directors of the Company, Mr. Liu Dajin, Mr. Liu Junting and Mr. He Jian. Mr. Liu Dajin serves as the chairman of the Audit Committee of the Company. The chairman of the Audit Committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The auditing process for the annual results for the year ended 31 December 2021 has not been completed due to restrictions in force in parts of China to combat the COVID-19 outbreak. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2021 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcements as and when necessary if there are other material development in the completion of the auditing process.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 to the shareholders.

PUBLICATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinashenghaigroup.com).

APPRECIATION

I would like to take this opportunity to express my thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers, customers and bankers for their continuous support.

On behalf of the Board of
China Shenghai Group Limited
Li Dongfan
Executive Director

Xiamen, the People's Republic of China, 31 March 2022

As at the date of this announcement, the executive directors of the Company are Mr. Li Dongfan, Mr. Liu Rongru and Ms. Chen Xiaoling and the independent non-executive directors of the Company are Mr. Liu Dajin, Mr. Liu Junting and Mr. He Jian.