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SHENGUAN HOLDINGS (GROUP) LIMITED

神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

2021 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL AND OPERATING SUMMARY

	For the six months ended 30 June		
	2021	2020	Change
Revenue (<i>RMB million</i>)	506.0	364.1	+39.0%
Profit Attributable to Owners of the Company (<i>RMB million</i>)	61.2	27.1	+125.6%
Basic Earnings Per Share (<i>RMB cents</i>)	1.9	0.84	+126.2%
Interim Dividend Per Share (<i>HK cents</i>)	–	–	N/A
Cash (Outflow)/Inflow from Operating Activities (<i>RMB million</i>)	(155.6)	109.3	N/A
	1H 2021	FY 2020	1H 2020
Total Assets (<i>RMB million</i>)	3,216.4	3,130.2	3,089.2
Inventory Turnover Day			
– Raw Materials (<i>days</i>)*	39.4	38.0	48.4
Inventory Turnover Day			
– Finished Goods & Work in Progress (<i>days</i>)*	198.3	197.3	296.9
Trade Receivables Turnover Day (<i>days</i>)*	74.9	84.2	110.8
Trade Payables Turnover Day (<i>days</i>)*	113.8	118.5	96.7

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

The board (the “Board”) of directors (the “Directors”) of Shenguan Holdings (Group) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021 (the “Period”), which have been prepared in accordance with the Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by Hong Kong Institute of Certified Public Accountants. The 2021 condensed consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 23 August 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	<i>Notes</i>	Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
REVENUE	4	506,006	364,087
Cost of sales		<u>(364,539)</u>	<u>(267,755)</u>
Gross profit		141,467	96,332
Other income and gains, net	5	29,656	37,364
Selling and distribution expenses		(14,738)	(12,074)
Administrative expenses		(77,950)	(85,721)
Finance costs	6	(2,219)	(1,295)
Share of profit/(loss) of an associate		<u>154</u>	<u>(2,100)</u>
PROFIT BEFORE TAX	7	76,370	32,506
Income tax expense	8	<u>(15,864)</u>	<u>(9,681)</u>
PROFIT FOR THE PERIOD		<u>60,506</u>	<u>22,825</u>

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
<i>Note</i>	RMB'000	RMB'000
OTHER COMPREHENSIVE LOSS		
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u>(4,990)</u>	<u>(4,503)</u>
NET OTHER COMPREHENSIVE LOSS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(4,990)</u>	<u>(4,503)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>55,516</u>	<u>18,322</u>
Profit/(loss) attributable to:		
Owners of the Company	61,240	27,147
Non-controlling interests	<u>(734)</u>	<u>(4,322)</u>
	<u>60,506</u>	<u>22,825</u>
Total comprehensive income/(loss) attributable to:		
Owners of the Company	56,250	22,644
Non-controlling interests	<u>(734)</u>	<u>(4,322)</u>
	<u>55,516</u>	<u>18,322</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
	10	
Basic and diluted (<i>RMB cents per share</i>)	<u>1.90</u>	<u>0.84</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

		30 June 2021 (Unaudited) <i>RMB'000</i>	31 December 2020 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,054,945	1,091,925
Investment properties		5,813	5,813
Right-of-use assets		113,035	114,025
Investment in an associate		26,762	26,608
Deferred tax assets		18,146	19,494
Long term prepayments and other receivables		51,911	16,917
Pledged deposits		155,000	70,000
Time deposits		290,000	280,000
		1,715,612	1,624,782
CURRENT ASSETS			
Inventories		490,648	459,233
Trade and bills receivables	11	247,077	168,350
Prepayments, other receivables and other assets		71,624	50,890
Pledged deposits		94,660	109,660
Cash and cash equivalents		596,792	717,285
		1,500,801	1,505,418
CURRENT LIABILITIES			
Trade and bills payables	12	54,193	130,838
Other payables and accruals		89,215	99,631
Dividend payable		8,963	–
Interest-bearing bank borrowings		426,058	148,391
Lease liabilities		1,518	1,056
Tax payable		16,562	23,321
		596,509	403,237
NET CURRENT ASSETS		904,292	1,102,181
TOTAL ASSETS LESS CURRENT LIABILITIES		2,619,904	2,726,963

		30 June 2021	31 December 2020
		(Unaudited)	(Audited)
	<i>Note</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities		1,768	1,803
Deferred income		26,582	28,418
Deferred tax liabilities		8,601	8,024
		<hr/>	<hr/>
Total non-current liabilities		36,951	38,245
		<hr/>	<hr/>
Net assets		2,582,953	2,688,718
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	27,807	27,807
Reserves		2,555,880	2,660,911
		<hr/>	<hr/>
		2,583,687	2,688,718
		<hr/>	<hr/>
Non-controlling interests		(734)	–
		<hr/>	<hr/>
Total equity		2,582,953	2,688,718
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2021

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial information of the Group for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited condensed interim financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020.

The accounting policies adopted in the preparation of the unaudited condensed interim financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020 which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, except for the adoption of the following revised HKFRSs for the first time for the current period’s financial information.

Amendments to HKAS 39, HKFRS 4, *Interest Rate Benchmark Reform – Phase 2*
HKFRS 7, HKFRS 9 and HKFRS 16

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

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 phase 2 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 has an interest-bearing bank borrowing denominated in US dollars based on the London Interbank Offered Rate (“LIBOR”) as at 30 June 2021. Since the interest rate of this borrowing was not replaced by RFR during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rate of this borrowing is replaced by RFR in a future period, the Group will apply this practical expedient upon the modification of this borrowing provided that the “economically equivalent” criterion is met.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of 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 by 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 customer

	Six months ended 30 June	
	2021 RMB’000	2020 RMB’000
Mainland China	455,019	317,626
Asia (excluding Mainland China)	27,573	26,256
Other countries/regions	23,414	20,205
	<u>506,006</u>	<u>364,087</u>

(b) Non-current assets

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

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 period is set out below:

	Six months ended 30 June	
	2021 (Unaudited) RMB’000	2020 (Unaudited) RMB’000
Customer 1	101,366	45,612
Customer 2	84,896	57,275
Customer 3	N/A*	43,198
	<u>186,262</u>	<u>146,085</u>

* Less than 10% of the Group’s total revenue

4. REVENUE

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers		
Goods transferred at point in time	505,970	363,993
Service transferred over time	36	94
	<u>506,006</u>	<u>364,087</u>

5. OTHER INCOME AND GAINS, NET

An analysis of other income and gains, net is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	21,647	15,682
Other interest income	100	192
Foreign exchange gains, net	–	1,441
Gain on disposal of financial assets at fair value through profit or loss	25	1,986
Government grants	3,860	16,280
Sales of dried meat products and auxiliary materials	2,779	743
Others	1,245	1,040
	<u>29,656</u>	<u>37,364</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	2,133	1,255
Interest on lease liabilities	86	40
	<u>2,219</u>	<u>1,295</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Cost of inventories sold	335,799	220,177
Depreciation of property, plant and equipment	46,909	47,220
Depreciation of right-of-use assets	2,600	2,190
Amortisation of other intangible assets	–	25,630
Impairment of trade receivables	6,814	3,532
Loss on disposal of items of property, plant and equipment, net	10,372	312
Write-off of inventories	4,993	5,658
(Reversal of provision)/provision of obsolete and slow-moving inventories	(11,332)	9,526
Foreign exchange differences, net	1,542	(1,441)
	<u>335,799</u>	<u>220,177</u>

8. 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 domiciled and operate.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period, 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 and is subject to the region's preferential corporate income tax rate of 15% as set out in the Announcement of the State Administration of Taxation on Issues Concerning Enterprise Income Tax Related with Enhancing the Western Region Development Strategy (Announcement [2012] No. 12).

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

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Current – PRC	13,482	12,223
Current – Hong Kong	456	553
Deferred tax	1,926	(3,095)
	<u>15,864</u>	<u>9,681</u>
Total tax charge for the period	<u>15,864</u>	<u>9,681</u>

9. DIVIDENDS

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Final dividend declared and paid for 2020 – HK2.0 cents (2019: HK2.0 cents) per ordinary share	53,760	59,028
Special dividend declared and paid for 2020 – HK4.0 cents (2019: HK4.0 cents) per ordinary share	<u>107,521</u>	<u>118,056</u>
	<u>161,281</u>	<u>177,084</u>

The directors of the Company did not propose any interim dividend in respect of the reporting period (six months ended 30 June 2020: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts for the period ended 30 June 2021 is based on the profit for the period attributable to owners of the Company of RMB61,240,000 (2020: RMB27,147,000) and the weighted average number of ordinary shares of 3,230,480,000 (2020: 3,230,480,000) in issue during the period ended 30 June 2021.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2021 (2020: Nil).

11. TRADE AND BILLS RECEIVABLES

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:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Within 1 month	69,585	58,072
1 month to 3 months	86,484	56,797
3 months to 6 months	88,355	43,638
6 months to 1 year	1,363	3,207
Over 1 year	<u>1,290</u>	<u>6,636</u>
	<u>247,077</u>	<u>168,350</u>

12. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Within 1 month	23,556	47,559
1 to 2 months	4,197	18,637
2 to 3 months	2,382	15,854
3 to 6 months	24,058	29,931
Over 6 months	–	18,857
	<u>54,193</u>	<u>130,838</u>

13. SHARE CAPITAL

Shares

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Authorised: 20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid: 3,230,480,000 (31 December 2020: 3,230,480,000) ordinary shares of HK\$0.01 each	<u>32,305</u>	<u>32,305</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Equivalent to	<u>27,807</u>	<u>27,807</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the six months ended 30 June 2021 (the “Period”), with global epidemic situation improved, the world economy had recovered gradually. Following the remarkable results achieved in normalizing epidemic control domestically and the unremitting efforts made in “guarding against imported cases and rebound in indigenous cases”, the overall situation continued to improve. Under the dual guarantee of proactive fiscal policy and prudent monetary policy, the dual circulation momentum was strong and employment and prices were generally stable, good expectations from market players, major macroeconomic indicators were operated within a reasonable range, and the domestic economy continued to grow steadily.

According to the preliminary verified data of the National Bureau of Statistics of the People’s Republic of China (the “PRC”), in the first half of 2021, China’s gross domestic product amounted to RMB53,216.7 billion, grew by 12.7% year-on-year at comparable prices. In the first half of 2021, total retail sales of consumer goods amounted to RMB21,190.4 billion, grew by 23.0% year-on-year, with significant improvement in market sales as well as rapid growth of consumer upgrade products. In the first half year of 2021, the output of pork, beef, mutton and poultry was 42.91 million tons, increased by 23.0% as compared with that of last year, among which pork output went up by 35.9%. With the continuous and stable growth of China’s economy and the constant improvement of the consumer market, the domestic collagen sausage casings market tends to grow in a benign manner.

Under the combined effect of the continuous economic recovery both domestically and abroad and the relatively low base last year, the economy continued to pick up. However, currently, the trend of global epidemic is still complicated, and the pressure of inflation on bulk commodity price is relatively high. According to the statistics of the National Bureau of Statistics, the producer price index (PPI) rose by 5.1% on average in the first half of 2021, which has brought considerable pressure to mid-and-downstream enterprises. Moreover, many unstable factors are seen in the external environment and 2021 will be also a year of opportunities and challenges.

Business Review

Collagen Sausage Casings

During the Period, 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 methods 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 behaviors, and strive to “seize opportunities to improve quality and efficiency”.

During the Period, 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 are 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, and the sales volume of casings has increased substantially as compared with last year, which strengthened the confidence and determination of the Company to continue developing new products.

With respect to the 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.

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 the “Thirteenth Five-Year Plan” 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.

During the Period, the Group achieved outstanding results in new product research and development. For collagen food products, the collagen rice noodles, collagen drinks and bovine collagen developed by the Group have achieved initial market launch and promotion. Beef tendon, the newly added product, had also entered the market and gained recognition from consumers.

For collagen skincare products, the Group changed its marketing method according to market development trend and adopted an online-oriented marketing measures 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 “hydrogel dressing” and “liquid dressing”. The highly reactive collagen-based bone repairing biomaterials (artificial bone) (高活性膠原基骨修復生物材料 (人工骨)) of the Group has completed its technical indicators testing and clinical trial preliminary works is in progress and clinical trial will start in the second half of the year. The “medical beauty product” (small beauty needle) (醫美產品 (小美容針)), which is being researched and developed by the Group, will carry out technical indicators testing and clinical trial preliminary works in the second half of year.

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 Period, Ferguson Wuhan turned losses into profits, bringing a share of profit of approximately RMB154,000 to the Group, as compared to the share of loss of approximately RMB2,100,000 in the same period last year.

Honors of the Group

As of the date of this announcement, 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, and “Guangxi Most Competitive Private Enterprise of 2021” (2021廣西最具競爭力民營企業) and “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 in recognition of the outstanding performance of the Group.

Patents

As at 30 June 2021, the Group had the following patents:

	Granted and still effective	Accepted and pending approval
National Intellectual Property Administration of the PRC	73	13
Taiwan Intellectual Property Office	2	–
United States Patent and Trademark Office	1	–

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 (G14967-94), 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 highly imitated quality sausage casing products to a number of renowned food suppliers in the PRC. The number of domestic customers continued to increase.

FINANCIAL ANALYSIS

Revenue

Revenue increased by approximately 39.0% to approximately RMB506.0 million for the Period from approximately RMB364.1 million for the six months ended 30 June 2020 (the “Prior Period”). 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 Prior Period.

Cost of sales

Cost of sales increased by approximately 36.1% to approximately RMB364.5 million for the Period from approximately RMB267.8 million for the Prior Period, including the net reversal of write-off and provision of inventory of approximately RMB6.3 million, as compared to the provision and write-off of approximately RMB15.2 million for the Prior Period. Excluding such items, the cost of sales for the Period increased by approximately 46.8% as compared to the Prior Period. During the Period, as the Group continued to actively develop various new casings to meet the continuously developing customer needs, the trial production cost of casings also increased significantly. The costs of raw materials for the Period increased by approximately 53.1% to approximately RMB162.7 million as compared with that of the Prior Period. In addition, the charges for energy increased by approximately 44.7% to approximately RMB80.2 million. The direct labor costs increased by approximately 65.4% to approximately RMB71.7 million, mainly caused by subsidy on staff insurance and benefit was received in Prior Period, but no corresponding subsidy was received in the Period.

Gross profit

Gross profit increased by approximately 46.9% to approximately RMB141.5 million for the Period from approximately RMB96.3 million for the Prior Period. Gross profit margin increased to approximately 28.0% for the Period from approximately 26.5% for the Prior Period.

Other income and gains

Other income and gains decreased by approximately 20.6% to approximately RMB29.7 million for the Period from approximately RMB37.4 million for the Prior Period, primarily because the Group received subsidies of approximately RMB3.9 million from Chinese government during the Period as compared to approximately RMB16.3 million over the Prior Period, the main reason for receiving subsidies for the Prior Period 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 22.1% to approximately RMB14.7 million for the Period from approximately RMB12.1 million for the Prior Period. Selling and distribution expenses as a percentage of revenue decreased to approximately 2.9% for the Period from approximately 3.3% for the Prior Period.

Administrative expenses

Administrative expenses decreased by approximately 9.1% to approximately RMB78.0 million for the Period from approximately RMB85.7 million for the Prior Period. The Group phased out equipment with lower production efficiency for the Period, and therefore recorded related losses approximately RMB10.4 million in total, compared to approximately RMB312,000 for the Prior Period. In addition, for the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets are amortised over five years, and these intangible assets were fully amortised in the third quarter of this year. The related amortisation expense was approximately RMB25.4 million for the Prior Period. After deducting the non-controlling interests and deferred tax of Guangdong Victory, the effect of the related amortisation expense on the net profit of the Group for the Prior Period was approximately RMB15.2 million.

Finance costs

Finance costs increased by approximately 71.4% to approximately RMB2.2 million for the Period from approximately RMB1.3 million for the Prior Period, mainly attributable to the increase in bank borrowings.

Share of profit/(loss) of an associate

During the Period, Ferguson Wuhan turned loss into profit, contributing a share of profit of approximately RMB154,000 to the Group as compared to a share of loss of approximately RMB2.1 million for the Prior Period.

Income tax expenses

Income tax expenses were approximately RMB15.9 million for the Period, as compared to approximately RMB9.7 million for the Prior Period. 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)) enjoyed 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 29.8% and approximately 20.8% of profit before tax for the Prior Period and for the Period, respectively. The higher effective tax rates for the Prior Period and for the Period than the applicable tax of major operating subsidiary was mainly due to the provision of dividend withholding tax and some subsidiaries of the Group recorded losses.

Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Period was approximately RMB734,000, 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 125.6% to approximately RMB61.2 million for the Period from approximately RMB27.1 million for the Prior Period.

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 30 June 2021, the cash and cash equivalents together with pledged deposits and time deposits amounted to approximately RMB1,136.5 million, representing a decrease of approximately RMB40.5 million from the end of 2020. Among these balances, approximately 95.4% was denominated in Renminbi, and the remaining 4.6% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 30 June 2021, the total bank borrowings of the Group amounted to approximately RMB426.1 million, increased by approximately RMB277.7 million (as at 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 RMB260.3 million, total bank borrowings denominated in U.S. dollars was US\$12.8 million (equivalent to approximately RMB82.5 million), and total bank borrowings denominated in HK\$ was HK\$100.0 million (equivalent to approximately RMB83.3 million).

The Group was in a net cash position (cash and cash equivalents together with the pledged deposits and time deposits less total bank borrowings) of approximately RMB710.4 million as at 30 June 2021, representing a decrease of approximately RMB318.2 million as compared to that as at the end of 2020. The debt-to-equity ratio was 16.6% as at 30 June 2021 (as at 31 December 2020: 5.6%). The debt-to-equity ratio was calculated by dividing total bank borrowings and lease liabilities by total equity.

Cash flows

During the Period, operating activities and investing activities utilised approximately RMB155.6 million and RMB75.0 million, respectively, while the net cash inflow of approximately RMB123.2 million was generated from financing activities. The net cash outflow from investing activities was mainly attributable to the cash outflow from increase in pledged time deposits and the acquisition of property, plant and equipment. The net cash inflow from financing activities was mainly attributable to the combined effects of new bank borrowings and the repayment of bank borrowings, and the payment of 2020 final dividends.

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 any formal hedging policies.

Capital expenditure

The capital expenditure of the Group during the Period amounted to approximately RMB25.7 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 30 June 2021 amounted to approximately RMB112.3 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2021 amounted to approximately RMB100.0 million, which will be used for the upgrade and intellectualisation of production facilities for sausage casing business, as well as the expansion of production facilities of the new businesses in progress, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of assets

As at 30 June 2021, pledged bank deposits amounted to approximately RMB249.7 million in total.

Contingent liabilities

As at 30 June 2021, the Group was not aware of any material contingent liabilities.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

The Group had no significant investments, material acquisitions or disposals of subsidiaries, associated companies and joint ventures during the Period.

EVENTS AFTER THE PERIOD

There were no important events affecting the Group that have occurred since 30 June 2021.

HUMAN RESOURCES

As at 30 June 2021, the Group recruited a total of approximately 2,600 contract employees (as at 30 June 2020: 2,600). During the Period, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB107.7 million (2020: approximately RMB73.7 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

Based on the economic trends and data in the first half of 2021, the domestic per capita expenditure on food, tobacco and alcohol increased by 14.2%, per capita expenditure on daily necessities and services increased by 15.1%, household expenditure maintained a recovery rebound, and the economy continued to return to stability, which laid a sound foundation for the economic operation in the second half year. Looking forward into the second half year, domestic demand will continue to rise, and domestic economy will continue to maintain a stable trend. On one hand, as the domestic epidemic prevention and control situation continues to improve, consumer demand will continue to recover, and market confidence will continue to enhance. On the other hand, the national macro policy has continued to maintain the efforts to support economic entities, which is conducive to alleviating difficulties for enterprises. Furthermore, foreign demand is also recovering, which has established the foundation for the growth of external demand. During the Period, Guangxi 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 meat enema industry in domestic market develops high-end products, the demand for highly imitated casings is gradually increasing, by virtue of which the Group will usher in a good opportunity for a new round of development.

2021 is the first year for the Group to implement the “Fourteenth Five-Year Plan”. In the first half of the year, the Group achieved good results of simultaneous growth in the three major indicators of production, sales and efficiency, and sales revenue set the largest increase in the past five years. In the second half of the year, the Group aims to maintain the good production and operation situation in the first half of the year, e.g. firstly, the total sales of collagen casings has maintained a steady growth; secondly, the recognition of substitute high-end natural casings by customers continues to increase, and the proportion of highly imitated casings continues to increase; thirdly, the stability of product quality is gradually improving; fourthly, the adjustment to product structure is in place gradually and economic benefits will maintain steady growth, fifthly, the contribution of new products other than casings has gradually increased. It is expected that in 2021, the collagen sausage casings and new industries will increase the revenue and efficiency of the Group.

The Group will carry out its work by centering on “developing new products, improving quality and increasing efficiency” in the sausage casings industry. Firstly, the Group will continue to focus on the production of high-end casings. According to the annual production and operation plan formulated at the beginning of the year, the Group will further improve the production process and production technology, and strictly control the quality. The Group will continue to strengthen the market expansion of medium and large-caliber products, and adopt key technical service methods for key customers to meet customer needs. Secondly, the Group will continue to do a good job in the transformation of mechanised and intelligent technology. The Group will accelerate the progress of the mechanisation and intelligent technology transformation project, carry out a new round of technological transformation and improvement on the casing production line, reduce product quality problems caused by equipment. The Group will also consider new technologies to improve equipment efficiency to further reduce labor intensity, reduce consumption, increase production efficiency and increase economic benefits. Thirdly, the Group will strictly control the purchase price of raw materials. Under the premise of unstable market factors, the purchase price of raw materials must be strictly controlled. The purchase of raw materials must be carried out in strict accordance with the procurement process management system of the Company, with layers of control and regular self-inspection. Fourthly, the Group will continue to implement an effective incentive mechanism. “Creation for excellence” activities and various types of evaluation work should be carried out actively and regularly. The Group will give more care and support to the front-line employees, stimulate their work enthusiasm and innovative spirit, and work hard to complete the goals and tasks of the Company in an all-round way.

For collagen food products, the Group will continue to expand its production capacity of bovine collagen rice noodles, collagen ingredients and collagen drinks. At the same time, the Group will adjust the publicity, promotion and marketing strategies of product, expand the marketing team, and strive to achieve better performance in the second half of the year.

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 repairing biomaterials” (artificial bone) (膠原蛋白骨修復材料 (人工骨)), speed up the technical indicators testing of “medical beauty product (small beauty needle)” (醫美產品 (小美容針)) and start its clinical trial preliminary works as soon as possible, and accelerate the product testing of “collagen hemostatic sponge” and endeavour to enter clinical trials as soon as possible. The Group will also manage to increase the production and commissioning and open the sales channels of medical collagen raw materials and the approved type I medical device products, including “hydrogel dressing” (水膠敷料) and “liquid dressing” (液體敷料), so as to generate economic benefits for the Group as soon as possible.

OTHER INFORMATION

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 share(s) of the Company (the “Share(s)”) 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 securities available for issue under the Scheme as at the date of this announcement was 323,048,000 Shares, which represented 10% of the total number of issued Shares as at the Adoption Date. 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 Period 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.

PAYMENT OF INTERIM DIVIDENDS

In view of the capital expenditure to be incurred by the Group and market expansion in the foreseeable future, no interim dividend was proposed by the Board in respect of the Period (Prior Period: Nil).

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 Period.

CORPORATE GOVERNANCE CODE

Save as disclosed below, the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the Period.

Under code provision A.2.1 of the Code, the roles of chairman and the 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 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 a separate chief executive. The Company will make timely announcement if the chief executive has been appointed.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole. The Chairman meets at least annually with the non-executive Directors without the executive Directors being present.

MODEL CODE TO THE LISTING RULES

The Company has adopted the Model Code as 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 Period. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company.

AUDIT COMMITTEE

The audit committee of the Board comprises of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Tsui Yung Kwok, who possesses professional accounting qualification and relevant accounting experience, is the chairman of the audit committee.

The audit committee has reviewed the unaudited condensed consolidated interim results of the Group for the Period and considered that the interim results had complied with all applicable accounting standards and the Listing Rules. The audit committee has also reviewed this interim result.

The unaudited condensed consolidated interim results of the Group for the Period have been reviewed by the Company's auditor, Ernst & Young.

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

Hong Kong, 23 August 2021

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi; the non-executive Director is Dato' Sri Low Jee Keong; and the independent non-executive Directors are Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.