

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

2022 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL AND OPERATING SUMMARY

	For the six months ended 30 June		
	2022	2021	Change
Revenue (<i>RMB million</i>)	430.8	506.0	-14.9%
Profit Attributable to Owners of the Company (<i>RMB million</i>)	13.5	61.2	-77.9%
Basic Earnings Per Share (<i>RMB cents</i>)	0.42	1.90	-77.9%
Interim Dividend Per Share (<i>HK cents</i>)	–	–	N/A
Cash Outflow from Operating Activities (<i>RMB million</i>)	(13.7)	(155.6)	-91.2%
	1H 2022	FY 2021	1H 2021
Total Assets (<i>RMB million</i>)	3,358.0	3,312.1	3,216.4
Inventory Turnover Day			
– Raw Materials (<i>days</i>)*	50.6	37.4	39.4
Inventory Turnover Day			
– Finished Goods & Work in Progress (<i>days</i>)*	195.4	159.6	198.3
Trade Receivables Turnover Day (<i>days</i>)*	77.4	56.0	74.9
Trade Payables Turnover Day (<i>days</i>)*	53.0	87.1	113.8

* 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 2022 (the “Period”), which have been prepared in accordance with the Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants. The 2022 condensed consolidated interim results of the Group have been reviewed by the audit committee of the Company, and approved by the Board on 30 August 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended 30 June	
		2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
REVENUE	4	430,791	506,006
Cost of sales		<u>(348,848)</u>	<u>(364,539)</u>
Gross profit		81,943	141,467
Other income and gains, net	5	30,876	29,656
Selling and distribution expenses		(13,944)	(14,738)
Administrative expenses		(73,186)	(77,950)
Finance costs	6	(3,545)	(2,219)
Share of profit/(loss) of an associate		<u>(287)</u>	<u>154</u>
PROFIT BEFORE TAX	7	21,857	76,370
Income tax expense	8	<u>(9,673)</u>	<u>(15,864)</u>
PROFIT FOR THE PERIOD		<u>12,184</u>	<u>60,506</u>

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
<i>Notes</i>	RMB'000	RMB'000
OTHER COMPREHENSIVE INCOME/ (LOSS)		
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u>2,805</u>	<u>(4,990)</u>
NET OTHER COMPREHENSIVE INCOME/(LOSS) THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>2,805</u>	<u>(4,990)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>14,989</u>	<u>55,516</u>
Profit/(loss) attributable to:		
Owners of the Company	13,535	61,240
Non-controlling interests	<u>(1,351)</u>	<u>(734)</u>
	<u>12,184</u>	<u>60,506</u>
Total comprehensive income/(loss) attributable to:		
Owners of the Company	16,340	56,250
Non-controlling interests	<u>(1,351)</u>	<u>(734)</u>
	<u>14,989</u>	<u>55,516</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10	
Basic and diluted (<i>RMB cents per share</i>)	<u>0.42</u>	<u>1.90</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

		30 June 2022	31 December 2021
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,026,320	1,056,228
Investment properties		17,017	17,017
Right-of-use assets		112,165	115,536
Investment in an associate		24,889	25,176
Deferred tax assets		18,797	18,859
Long term prepayments and other receivables		50,743	49,836
Pledged deposits		125,000	145,000
Time deposits		175,500	155,500
		<hr/>	<hr/>
Total non-current assets		1,550,431	1,583,152
CURRENT ASSETS			
Inventories		517,925	422,280
Trade and bills receivables	11	175,158	190,288
Prepayments, other receivables and other assets		62,255	57,453
Pledged deposits		185,371	60,000
Cash and cash equivalents		866,532	998,897
		<hr/>	<hr/>
		1,807,241	1,728,918
Assets held for sale		362	–
		<hr/>	<hr/>
Total current assets		1,807,603	1,728,918
CURRENT LIABILITIES			
Trade and bills payables	12	71,707	48,978
Other payables and accruals		94,379	113,109
Derivative financial instruments		2,925	1,506
Interest-bearing bank borrowings		527,341	418,174
Lease liabilities		3,871	4,109
Tax payable		21,740	32,145
Dividend Payable		99,235	–
		<hr/>	<hr/>
Total current liabilities		821,198	618,021
		<hr/>	<hr/>
NET CURRENT ASSETS		986,405	1,110,897
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,536,836	2,694,049
		<hr/>	<hr/>

		30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Lease liabilities		3,750	5,669
Deferred income		22,510	24,322
Deferred tax liabilities		5,759	8,470
		<hr/>	<hr/>
Total non-current liabilities		32,019	38,461
		<hr/>	<hr/>
Net assets		2,504,817	2,655,588
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	27,807	27,807
Reserves		2,480,997	2,630,417
		<hr/>	<hr/>
		2,508,804	2,658,224
		<hr/>	<hr/>
Non-controlling interests		(3,987)	(2,636)
		<hr/>	<hr/>
Total equity		2,504,817	2,655,588
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2022

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.

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by 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 interim condensed consolidated 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 2021.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

- (a) Amendments to HKFRS 3 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 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 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 has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. There is no business combination that occurred on or after 1 January 2022, so the amendments did not have any impact on the financial position and performance of the Group on the date of transition.

- (b) 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 Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2022. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) 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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *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 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. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

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.

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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Mainland China	377,676	455,019
Asia (excluding Mainland China)	24,095	27,573
Other countries/regions	29,020	23,414
	<u>430,791</u>	<u>506,006</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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Customer 1	70,635	101,366
Customer 2	54,405	84,896

4. REVENUE

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers		
Goods transferred at point in time	430,769	505,970
Service transferred over time	22	36
	<u>430,791</u>	<u>506,006</u>

5. OTHER INCOME AND GAINS, NET

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	22,798	21,672
Other interest income	100	100
Government grants	4,447	3,860
Sales of dried meat products and auxiliary materials	1,914	2,779
Rental income	1,326	1,109
Others	291	136
	<u>30,876</u>	<u>29,656</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	3,346	2,133
Interest on lease liabilities	199	86
	<u>3,545</u>	<u>2,219</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Cost of inventories sold	308,453	335,799
Depreciation of property, plant and equipment	45,796	46,909
Depreciation of right-of-use assets	3,408	2,600
Fair value losses on derivative financial instrument – transactions not qualifying as hedges	2,925	–
Impairment of trade receivables	3,496	6,814
Loss on disposal of items of property, plant and equipment, net	388	10,372
Write-off of inventories	3,490	4,993
Provision/(Reversal of provision) of obsolete and slow-moving inventories	2,131	(11,332)
Foreign exchange differences, net	6,626	1,542
	<u>308,453</u>	<u>335,799</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 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 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 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 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.

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Current – PRC	12,129	13,482
Current – Hong Kong	189	456
Deferred tax	(2,645)	1,926
	<u>9,673</u>	<u>15,864</u>

9. DIVIDENDS

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Final dividend declared and paid for 2021 – HK2.0 cents (2020: HK2.0 cents) per ordinary share	55,253	53,760
Special dividend declared and paid for 2021 – HK4.0 cents (2020: HK4.0 cents) per ordinary share	<u>110,507</u>	<u>107,521</u>
	<u>165,760</u>	<u>161,281</u>

The directors of the Company did not propose any interim dividend in respect of the reporting period (six months ended 30 June 2021: 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 2022 is based on the profit for the period attributable to owners of the Company of RMB13,535,000 (six months ended 30 June 2021: RMB61,240,000) and the weighted average number of ordinary shares of 3,230,480,000 (six months ended 30 June 2021: 3,230,480,000) in issue during the period ended 30 June 2022.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2022 (six months ended 30 June 2021: 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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 1 month	36,754	88,232
1 to 3 months	73,001	77,335
3 to 6 months	55,863	18,493
6 months to 1 year	6,550	3,608
Over 1 year	<u>2,990</u>	<u>2,620</u>
	<u>175,158</u>	<u>190,288</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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 1 month	36,760	38,836
1 to 2 months	8,270	2,715
2 to 3 months	5,783	1,134
3 to 6 months	14,345	1,718
Over 6 months	6,549	4,575
	<u>71,707</u>	<u>48,978</u>

13. SHARE CAPITAL

Shares

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (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 2021: 3,230,480,000) ordinary shares of HK\$0.01 each	<u>32,305</u>	<u>32,305</u>
	RMB'000	RMB'000
Equivalent to	<u>27,807</u>	<u>27,807</u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the six months ended 30 June 2022 (the “Period”), China’s economy struggled to move forward on the back of an unexpected outbreak of the COVID-19 epidemic in various cities of the People’s Republic of China (the “PRC”) in the second quarter. The resurgence of the COVID-19 epidemic and the impact of the Russian-Ukrainian war affected both product sales and raw materials supply, which increased the uncertainty of production and operation of various enterprises. Nevertheless, China’s economy continued to show a development momentum, and the overall social situation remained stable, thanks to the government’s efforts to effectively coordinate the epidemic prevention and control and implement policies and measures to “stabilise the economy”.

According to the preliminary verified data of the National Bureau of Statistics of the PRC, in the first half of 2022, China’s gross domestic product amounted to RMB56,264.2 billion, growing by 2.5% year-on-year on a constant base price basis. In the first half of 2022, total retail sales of consumer goods amounted to RMB21,043.2 billion, decreased by 0.7% year-on-year. Particularly in June, market sales gradually improved with total retail sales of consumer goods of RMB3,874.2 billion. In the first half year, the output of pork, beef, mutton and poultry was 45.19 million tons, increased by 5.3% as compared with the same period last year, among which the output of pork, beef and mutton increased while the output of poultry decreased slightly.

BUSINESS REVIEW

As a strategic emerging industry in the 21st century, the nutrition, health care and medical industries have a huge demand for collagen especially. The development and application of collagen as the mainstream of the grand health industry is growing rapidly in both domestic and foreign markets. A variety of products using collagen as raw materials have been listed in the national strategic emerging industries catalog.

Collagen Sausage Casings

The COVID-19 epidemic was still spreading globally, the external environment became more complicated and uncertain, and the domestic economy also faced triple pressures of demand contraction, supply shock and weakening expectation. In terms of the domestic market, as the epidemic continued, consumption occasions such as dining out and outdoor activities were greatly reduced, the overall economic situation was sluggish, and the downstream meat products enterprises also shifted to a stable and conservative strategy. In addition, meat products enterprises in certain regions came to a halt or reduced production due to epidemic control, which also caused certain impact on the demand for collagen sausage casings. In terms of the international market, factors such as high shipping costs, variable shipping schedules and epidemic control measures in the countries where customers are located also exerted a greater impact on the Group’s exports.

During the Period, the Group carried out its work by centering on “stabilising quality, expanding new products and maintaining production capacity” in the collagen sausage casings industry. The Group continued to take stabilising the quality of collagen sausage casings products as its top priority, and implemented the accountability system and supervision system from the production segment to the sales segment to ensure the normal operation of facilities and equipment as well as proper production operation, so as to guarantee product quality. The Group had completed some R&D and technical renovation projects, through which the Group will increase production capacity and reduce production costs without increasing the sites. In terms of internal management, the Group continued to strengthen management awareness and clarify management responsibilities, implement and enhance supervision and standardise behaviours.

Moreover, during the Period, the Group always performed its safety production measures well in accordance with the epidemic prevention and control requirements to ensure that all production segments were implemented as required. Also, in facing customer feedback, the Group actively absorbed and improved as needed to improve the quality stability of sausage casing products and secure key customers, so as to promote the sales of new products, and consolidate its industry position and brand reputation.

Other Products

With the deepened implementation of “Healthy China 2030” Planning Outline, as a sunrise industry, the grand health industry enjoys enormous development potential. It is an emerging strategic industry with the engagement of various “new power and new energy”. By focusing on the grand health industry, it will bring strong driving force to the development of China’s health industry.

For collagen food products, the Group’s products already include collagen rice noodles, collagen drinks, beef tendon and collagen oatmeal. In order to enrich the product range, the Group obtained the production licence for collagen oat drinks during the Period and made various preparations for mass production.

For collagen skincare products, the Group further improved the quality of skincare products, continuously upgraded product formula, changed its marketing strategies according to market development trends 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. We have filed the medical collagen raw materials on the enterprise website published by relevant state authorities, which will help improve the legal feasibility of customers’ selection of the Group’s medical collagen raw materials. The “collagen bone filling biomaterials (artificial bone)(胶原蛋白骨填充材料(人工骨))” have been approved by the Ethics Committee of Clinical Trials, and clinical trials are in progress in seven hospitals.

We completed the installation of the “band-aids“ production equipment, the Type I medical device products of the Group, with successful trial production, the registration of “disposable sterile dressing”, the Type II medical device products, is in process, and the animal trials and discussions on clinical trial protocols for “in vivo absorbable hemostatic dressing” are underway. The product development of “medical beauty product (small beauty needle)” (醫美產品 (小美容針)) has been completed, and the indicator testing before animal trials is in process.

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 contributed a share of loss of approximately RMB287,000 to the Group.

Honours of the Group

During the Period, the Group was awarded the “Listed Enterprise Excellence Awards 2021” by Capital Magazine in recognition of the Group’s outstanding performance.

Patents

As at 30 June 2022, the Group had the following patents:

	Total number of patents granted	Within the validity period	Accepted and pending approval
National Intellectual Property Administration of the PRC	105	75	6
Taiwan Intellectual Property Office	2	2	–
United States Patent and Trademark Office	1	1	–
Intellectual Property Office of Singapore	1	1	–
	<hr/>	<hr/>	<hr/>
Total	<u>109</u>	<u>79</u>	<u>6</u>

Quality Control

The Group strictly controls every production step to ensure its products are of the best quality and have complied with all food 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. However, due to the impact of various prevention and control measures of the COVID-19 epidemic, the supply of cattle inner skin was slightly tight during the Period, and the prices of which, as well as the prices of other raw materials and auxiliary materials, have risen significantly, bringing cost pressure to the Group.

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 of the PRC” and “Food Safety Law of the PRC” on a voluntary basis. The licence has been granted by Wuzhou Bureau for Administrative Examination and Approval with a valid period until November 2022.

FINANCIAL ANALYSIS

Revenue

Revenue decreased by approximately 14.9% to approximately RMB430.8 million for the Period from approximately RMB506.0 million for the six months ended 30 June 2021 (the “Prior Period”). The decrease was mainly due to the escalation of the COVID-19 epidemic and the various COVID-19 control policies and measures adopted by the governments of Mainland China and other countries, which resulted in the disruption of business activities and logistics of many enterprises including the Group and our business partners, hence resulting in the decrease in demand for our products.

Cost of Sales

Cost of sales decreased by approximately 4.3% to approximately RMB348.8 million for the Period from approximately RMB364.5 million for the Prior Period, including the write-off and provision of inventory of approximately RMB5.6 million, as compared to the net reversal of write-off and provision of inventory of approximately RMB6.3 million for the Prior Period. Excluding such items, the cost of sales for the Period decreased by approximately 7.5% as compared to the Prior Period. The costs of raw materials for the Period decreased by approximately 3.1% to approximately RMB157.6 million as compared with that of the Prior Period. In addition, the charges for energy decreased by approximately 15.7% to approximately RMB67.6 million. The direct labor costs decreased by approximately 11.9% to approximately RMB63.2 million.

Gross Profit

Gross profit decreased by approximately 42.1% to approximately RMB81.9 million for the Period from approximately RMB141.5 million for the Prior Period. Gross profit margin decreased to approximately 19.0% for the Period from approximately 28.0% for the Prior Period, mainly attributable to the decrease in demand and the increase in transportation and procurement expenses due to various COVID-19 control policies and measures adopted by the governments of Mainland China and other countries. The unit cost of sales increased due to higher costs of raw materials, cost of auxiliary materials and charges for energy, which was partially offset by higher average selling prices of products.

Other Income and Gains

Other income and gains increased by approximately 4.1% to approximately RMB30.9 million for the Period from approximately RMB29.7 million for the Prior Period.

Selling and Distribution Expenses

Selling and distribution expenses decreased by approximately 5.4% to approximately RMB13.9 million for the Period from approximately RMB14.7 million for the Prior Period. Selling and distribution expenses as a percentage of revenue increased to approximately 3.2% for the Period from approximately 2.9% for the Prior Period.

Administrative Expenses

Administrative expenses decreased by approximately 6.1% to approximately RMB73.2 million for the Period from approximately RMB78.0 million for the Prior Period. The Group phased out equipment with lower production efficiency for the Prior Period, therefore recorded related losses of approximately RMB10.4 million in total, and the related losses were approximately RMB0.4 million for the Period. The Group recorded an exchange loss of approximately RMB6.6 million in total for the Period due to the depreciation of Renminbi against the U.S. dollars and Hong Kong dollars, as compared to an exchange loss of approximately RMB1.5 million in total for the Prior Period.

Finance Costs

Finance costs increased by approximately 59.8% to approximately RMB3.5 million for the Period from approximately RMB2.2 million for the Prior Period, mainly attributable to the increase in bank borrowings.

Share of (Loss)/Profit of an Associate

During the Period, Ferguson Wuhan contributed a share of loss of approximately RMB287,000 to the Group as compared to a share of profit of approximately RMB154,000 for the Prior Period.

Income Tax Expenses

Income tax expenses were approximately RMB9.7 million for the Period, as compared to approximately RMB15.9 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") 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 Shenguan Collagen is 15%.

The effective tax rates applied to the Group were approximately 20.8% and approximately 44.3% of profit before tax for the Prior Period and for the Period, respectively. The higher effective tax rates for the Period and for the Prior Period 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 Period was approximately RMB1.4 million, which mainly represented the total loss attributable to the non-controlling interests in all non-wholly owned subsidiaries.

Profit Attributable to Owners of the Company

As stipulated in the aforesaid reasons, profit attributable to owners of the Company decreased by approximately 77.9% to approximately RMB13.5 million for the Period from approximately RMB61.2 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 2022, the cash and cash equivalents together with pledged and time deposits amounted to approximately RMB1,352.4 million and amounted to RMB1,253.2 million after deducting part of the 2021 dividends by bank transfer that was completed in early July 2022, representing a decrease of approximately RMB106.2 million (as at 31 December 2021: approximately RMB1,359.4 million) from the end of 2021. Among these balances, approximately 94.6% was denominated in Renminbi, and the remaining 5.4% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 30 June 2022, the total bank borrowings of the Group amounted to approximately RMB527.3 million, increased by approximately RMB109.1 million (as at 31 December 2021: approximately RMB418.2 million), and all bank borrowings were wholly repayable within one year. Total bank borrowings denominated in Renminbi was approximately RMB245.6 million, total bank borrowings denominated in U.S. dollars was US\$28.6 million (equivalent to approximately RMB191.9 million), and total bank borrowings denominated in Hong Kong dollars was HK\$105.0 million (equivalent to approximately RMB89.8 million).

The Group was in a net cash position (cash and cash equivalents together with the pledged and time deposits less total bank borrowings) of approximately RMB825.1 million as at 30 June 2022, and amounted to RMB725.9 million after deducting the dividends by bank transfer that was completed in early July 2022, representing a decrease of approximately RMB215.3 million as compared to that as at the end of 2021. The debt-to-equity ratio was 21.4% as at 30 June 2022 (as at 31 December 2021: 16.1%). 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 utilised approximately RMB13.7 million, while the net cash inflow of approximately RMB88.6 million and RMB27.8 million were generated from investing activities and financing activities, respectively. The net cash inflow from investing activities was mainly attributable to the cash inflow from decrease in non-pledged time deposits with original maturity of over three months when acquired, partly offset by 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 2021 final dividends.

Derivative Financial Instruments

During the Period, 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\$28.6 million, and sold RMB and buy U.S. dollars at a fixed forward exchange rate, so as to pay the principal and interest of the U.S. dollars loan at maturity. As at 30 June 2022, the fair value of the contract was a liability of approximately RMB2.9 million. Please refer to the announcement of the Group dated 20 May 2022 for details.

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.

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 Period amounted to approximately RMB16.1 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 30 June 2022 amounted to approximately RMB119.5 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, expansion of the production capacity of new collagen application products, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of Assets

As at 30 June 2022, pledged bank deposits amounted to approximately RMB310.4 million in total.

Contingent Liabilities

As at 30 June 2022, 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 2022.

HUMAN RESOURCES

As at 30 June 2022, the Group recruited a total of approximately 2,690 contract employees (as at 30 June 2021: 2,600). During the Period, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB93.2 million (30 June 2021: approximately RMB107.7 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 2022, the domestic resident per capita consumption expenditure on food, tobacco and alcohol amounted to RMB3,685, representing an increase of 4.2%. Household spending is recovering and the economic situation remains stable, laying a sound foundation for economic operation in the second half year. In the second half of 2022, as the epidemic prevention and control situation continues to improve, consumer demand will continue to pick up, market confidence will continue to strengthen, and the domestic economy will continue to maintain a stable situation. In addition, the national macro policy has continued to maintain the efforts to support economic entities, giving impetus to the development of enterprises. Foreign demand will also be in a recovery situation as the external environment becomes more stable, laying the foundation for the growth of the foreign demand.

During the Period, Guangxi promulgated “Certain Measures for Implementing a Package of Policies to Steady and Stabilize the Economy to Protect Market Entities” (《關於貫徹落實紮實穩住經濟一攬子政策力保市場主體的若干措施》) and “Guangxi’s Implementation Plan for Implementing Cross-Cycle Adjustments to Further Stabilize Foreign Trade” (《廣西落實跨週期調節進一步穩外貿實施方案》) to help mitigate the operating pressure of enterprises. Moreover, as the sausages industry in domestic market develops high-end products, the market 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. 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.

With the continuous control of the COVID-19 epidemic in the PRC and the gradual return to economic expansion, the Group will also adjust the selling price of collagen casings in the second half year to mitigate cost pressure. 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 maintain quality stability as a priority, and establish a preventive mechanism in future. Secondly, the Group will accelerate the 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 continue to meet the production and development needs of enterprises. 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, collagen oat drink 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 the “Luxina” product chain, 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 into 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 the grand health industry of Shenguan and further broaden the application of collagen technology to generate better returns for the shareholders.

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 was 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 date of this announcement. 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 C.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 C.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 announcement.

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

Hong Kong, 30 August 2022

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.