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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)

2024 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL AND OPERATING SUMMARY

	For the six months ended 30 June		
	2024	2023	Change
Revenue (<i>RMB million</i>)	452.4	509.3	-11.2%
Profit Attributable to Owners of the parent (<i>RMB million</i>)	8.2	1.2	+580.2%
Basic Earnings Per Share (<i>RMB cents</i>)	0.25	0.04	+525.0%
Interim Dividend Per Share (<i>HK cents</i>)	–	–	N/A
Cash (Outflow)/Inflow from Operating Activities (<i>RMB million</i>)	(149.5)	24.9	N/A
	1H 2024	FY 2023	1H 2023
Total Assets (<i>RMB million</i>)	2,996.1	2,957.3	2,906.6
Inventory Turnover Day			
– Raw Materials (<i>days</i>)*	60.6	37.7	38.7
Inventory Turnover Day			
– Finished Goods & Work in Progress (<i>days</i>)*	232.9	156.7	157.5
Trade Receivables Turnover Day (<i>days</i>)*	66.4	64.0	68.0
Trade Payables Turnover Day (<i>days</i>)*	62.3	72.1	62.8

* 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 2024 (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 2024 condensed consolidated interim results of the Group have been reviewed by the audit committee (the “Audit Committee”) of the Company, and approved by the Board on 23 August 2024.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024	2023
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	4	452,357	509,306
Cost of sales		<u>(373,334)</u>	<u>(463,507)</u>
Gross profit		79,023	45,799
Other income and gains, net	5	31,862	70,069
Selling and distribution expenses		(18,579)	(16,920)
Administrative expenses		(59,640)	(67,434)
Finance costs	6	(3,713)	(5,926)
Share of loss of an associate		(287)	(927)
Impairment of trade and bills receivables		(6,395)	(5,374)
Impairment of financial assets included in prepayments, other receivables and other assets		<u>(3,568)</u>	<u>–</u>
PROFIT BEFORE TAX	7	18,703	19,287
Income tax expense	8	<u>(9,724)</u>	<u>(19,147)</u>
PROFIT FOR THE PERIOD		<u>8,979</u>	<u>140</u>

		Six months ended 30 June	
		2024	2023
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Note			
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<u>4,330</u>	<u>7,579</u>
NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>4,330</u>	<u>7,579</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>13,309</u></u>	<u><u>7,719</u></u>
Profit/(loss) attributable to:			
Owners of the parent		8,231	1,210
Non-controlling interests		<u>748</u>	<u>(1,070)</u>
		<u><u>8,979</u></u>	<u><u>140</u></u>
Total comprehensive income/(loss) attributable to:			
Owners of the parent		12,561	8,789
Non-controlling interests		<u>748</u>	<u>(1,070)</u>
		<u><u>13,309</u></u>	<u><u>7,719</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (<i>RMB cents per share</i>)		<u><u>0.25</u></u>	<u><u>0.04</u></u>

10

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024

		30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,028,271	1,003,516
Investment properties		14,805	14,231
Net investments in sublease		512	–
Right-of-use assets		110,267	107,316
Investment in an associate		1,841	3,128
Deferred tax assets		14,880	13,903
Prepayments, other receivables and other assets		46,477	50,921
Time deposits		104,000	134,000
		<hr/>	<hr/>
Total non-current assets		1,321,053	1,327,015
CURRENT ASSETS			
Inventories		696,421	504,482
Trade and bills receivables	11	146,565	182,665
Prepayments, other receivables and other assets		52,247	53,155
Net investments in sublease		265	–
Tax recoverable		15	18
Pledged deposits		6,128	65,955
Cash and cash equivalents		773,432	824,006
		<hr/>	<hr/>
Total current assets		1,675,073	1,630,281
CURRENT LIABILITIES			
Trade and bills payables	12	105,880	101,658
Other payables and accruals		109,518	149,084
Interest-bearing bank borrowings		333,301	272,842
Lease liabilities		4,150	3,271
Tax payable		25,373	27,082
Dividend payable		117,936	–
		<hr/>	<hr/>
Total current liabilities		696,158	553,937
		<hr/>	<hr/>
NET CURRENT ASSETS		978,915	1,076,344
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		2,299,968	2,403,359

		30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Lease liabilities		5,658	1,254
Deferred income		18,420	19,504
Deferred tax liabilities		3,815	6,385
		<hr/>	<hr/>
Total non-current liabilities		27,893	27,143
		<hr/>	<hr/>
Net assets		2,272,075	2,376,216
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	27,807	27,807
Reserves		2,249,950	2,354,839
		<hr/>	<hr/>
		2,277,757	2,382,646
		<hr/>	<hr/>
Non-controlling interests		(5,682)	(6,430)
		<hr/>	<hr/>
Total equity		2,272,075	2,376,216
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2024

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, collagen food products, collagen skin care products and collagen medical biomaterials.

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2024 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2023.

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 2023, 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 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the “2020 Amendments”)
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> (the “2022 Amendments”)
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i>

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

- (a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

- (b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

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 collagen food products, collagen skin care products and collagen medical biomaterials.

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 customers*

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Chinese Mainland	380,261	441,033
Asia (excluding Chinese Mainland)	48,162	30,197
Other countries/regions	23,934	38,076
Total	<u>452,357</u>	<u>509,306</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 Chinese Mainland.

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 2023 (Unaudited) RMB'000
Customer 1	118,954
Customer 2	69,334

There is no individual customer accounted for 10% or more of the Group's revenue for the period ended 30 June 2024.

4. REVENUE

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

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Revenue from contracts with customers		
Goods transferred at point in time	452,323	509,282
Service transferred over time	34	24
Total	452,357	509,306

5. OTHER INCOME AND GAINS, NET

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

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Bank interest income	17,156	21,854
Finance income on net investments in sublease	16	–
Government grants	4,887	2,319
Fair value gain on derivative financial instrument	–	3,467
Gain on disposal of intangible assets	–	39,726
Fair value gain on investment properties	574	–
Sales of auxiliary materials	3,596	654
Gain on disposal of items of property, plant and equipment, net	2,118	520
Rental income	2,248	1,050
Foreign exchange differences, net	1,131	–
Others	136	479
	31,862	70,069

6. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans	3,627	5,808
Interest on lease liabilities	86	118
	<u>3,713</u>	<u>5,926</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	334,283	416,623
Depreciation of property, plant and equipment	35,150	48,638
Depreciation of right-of-use assets	3,544	3,330
Fair value gain on derivative financial instrument – transactions not qualifying as hedges	–	(3,467)
Impairment of trade and bills receivables	6,395	5,374
Gain on disposal of items of property, plant and equipment, net	(2,118)	(520)
Gain on disposal of intangible assets	–	(39,726)
Impairment of financial assets included in prepayments, other receivables and other assets	3,568	–
Impairment of an investment in an associate	1,000	2,900
Write-off of inventories	2,860	3,192
Provision of obsolete and slow-moving inventories	2,775	2,899
Foreign exchange differences, net	<u>(1,131)</u>	<u>2,524</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% (2023: 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 (2023: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2023: 8.25%) and the remaining assessable profits are taxed at 16.5% (2023: 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	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Current – PRC	12,865	12,290
Current – Hong Kong	406	419
Deferred tax	(3,547)	6,438
Total tax charge for the period	<u>9,724</u>	<u>19,147</u>

9. DIVIDENDS

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividend declared and paid for 2023 – HK2.0 cents (2022: HK2.0 cents) per ordinary share	58,725	59,569
Special dividend declared and paid for 2023 – HK2.0 cents (2022: HK4.0 cents) per ordinary share	58,725	119,137
	117,450	178,706

The directors of the Company did not propose any interim dividend in respect of the reporting period (six months ended 30 June 2023: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts for the period ended 30 June 2024 is based on the profit for the period attributable to ordinary equity holders of the parent of RMB8,231,000 (six months ended 30 June 2023: RMB1,210,000) and the weighted average number of ordinary shares of 3,230,480,000 (six months ended 30 June 2023: 3,230,480,000) in issue during the period ended 30 June 2024.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2024 (six months ended 30 June 2023: 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	31 December
	2024	2023
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 1 month	42,193	59,444
1 month to 3 months	47,022	61,944
3 months to 6 months	46,874	46,709
6 months to 1 year	3,591	9,083
Over 1 year	6,885	5,485
Total	146,565	182,665

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 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Within 1 month	28,950	32,088
1 to 2 months	18,522	14,190
2 to 3 months	4,642	18,630
3 to 6 months	25,288	18,954
Over 6 months	28,478	17,796
Total	105,880	101,658

13. SHARE CAPITAL

Shares

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Authorised: 20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid: 3,230,480,000 (31 December 2023: 3,230,480,000) ordinary shares of HK\$0.01 each	32,305	32,305
	RMB'000	RMB'000
Equivalent to	27,807	27,807

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the Period, in facing the new challenges brought by the complicated and acute external environment and the continuous deepening of domestic structural adjustments, the People's Republic of China (the "PRC" or "China") pushed forward steadily the supply-side structural reform, proactively expanded domestic demand and facilitated consumer spending upgrade to drive the national economy to continue regaining its sound situation, new momentum accelerating its growth and high-quality development making new progress, demonstrating strong resilience and vitality.

According to the data from the National Bureau of Statistics of China, China's gross domestic product (GDP) increased by 5.0% year-on-year in the first half of 2024, remaining an important driver of global economic growth. The contribution rate of consumption expenditure to economic growth in the first half year reached 60.5%, driving GDP growth by 3.0 percentage points, making it an indispensable pillar of China's economic growth. In the long run, the implementation of promoting-consumption policies and the innovation and expansion of consumer scenarios will lay a solid foundation for the sustained growth of demand in China's collagen sausage casings market.

BUSINESS REVIEW

In 2024, the Company welcomes its 45th anniversary of corporate development and its 15th anniversary of listing in Hong Kong. From producing the first collagen sausage casings in China to possessing three world-first core technologies, the Group has become a world-class enterprise in collagen sausage casings. The Group is accelerating the development of the grand health industry under the "Three Developments and One Core" strategy. Relying on the collagen core technology with a complete triple helix, the Group has successfully launched six series of new products of collagen sausage casings to further consolidate its leading position in the collagen sausage casings market. At the same time, the Group intensifies its expansion in three major industries, namely collagen food products, collagen skincare products and collagen medical biomaterials.

Collagen Sausage Casings

During the Period, the Group successfully developed and launched six new products of the collagen sausage casings series, namely “fried”, “crispy”, “fresh”, “tender”, “bright” and “colorful”, and held new product promotional seminars and global investment promotion seminars to initiate industry exchanges. The new products earned unanimous customer praise, laying a solid foundation for promoting the comprehensive upgrade of collagen sausage casings products and covering market needs. To cope with the launch of new products, the Group also constantly strengthens and improves its production capacity. The plan of production capacity expansion formulated by the Group has basically been achieved, with the production capacity of collagen sausage casings reaching 7 billion metres. Meanwhile, the Group has also upgraded and renovated its facilities related to raw material warehousing, storage, pre-processing, collagen extraction, sausage casings production and environmental protection.

Other Products

With the deepened implementation of the “Healthy China 2030” Planning Outline, as a sunrise industry, the grand health industry enjoys enormous development potential. It is a national emerging strategic industry with the engagement of various “new power and new energy”. By focusing on the grand health industry, it will bring a strong driving force to the development of China’s health industry. During the Period, the sales revenue of collagen food products, skincare products and medical biomaterials increased by approximately 327.0% as compared with the same period last year (the “Prior Period”).

For collagen food products, the Group is committed to promoting the innovative application of collagen in the food industry and has developed a series of bovine collagen food products represented by ready-to-eat “beef tendon” with collagen as the main raw material, as well as health food products such as collagen oat drinks and brown sugar ginger tea, etc. Several collagen food products were comprehensively upgraded during the Period from packaging to texture to better in line with consumer needs nowadays. The overall sales of collagen food products also increased as compared to the same period last year.

For collagen skincare products, the Group’s highly active and easy-to-absorb collagen technology has enabled the creation of a wide range of products such as collagen essence, collagen facial mask, collagen hand cream, collagen lotion, collagen cream and collagen gel, etc., which provide consumers with safe and mild high-quality skincare products with better effects.

During the Period, the Group performed particularly well in the collagen medical biomaterials segment, with the endotoxin content of the Group’s medical collagen raw materials extracted through its proprietary technology being only 0.01EU/ml, which is better than the FDA’s standard of 0.5EU/ml in the USA. The prospects of selling medical collagen raw materials were promising, representing an increase of 648.7% as compared with the Prior Period. The clinical report of “collagen bone filling biomaterials (artificial bone) (膠原蛋白骨填充材料(人工骨))” has been completed, and the application for the next stage of Class III medical device products license is being prepared. The “oral post-operative medical collagen sponge (口腔術後醫用膠原蛋白海綿)” has passed the ethical stage, and will enter the clinical trial stage in the second half of this year. The “medical collagen dressing (醫用膠原蛋白敷料)” and “small beauty needle (小美容針)” are now entering the stage of physical and chemical index testing and animal trial.

Honours of the Group

During the Period, the Group’s trademark of “Shenguan” was enlisted on the China’s First Batch of Key Trademark Protection Lists for Light Industry (中國第一批輕工業重點商標保護名錄) at the “2024 China Light Industry Intellectual Property Conference (2024年中國輕工業知識產權大會)” organized by China Light Industry Enterprise Management Association (中國輕工業企業管理協會). In addition, the Group’s halal collagen sausage casings have also successfully obtained the “Halal Certificate (清真證書)” issued by the Halal Foundation Center.

Patents

As of 30 June 2024, the Group had the following patents:

	Total number of patents granted	Within the validity period	Under acceptance
China National Intellectual Property Administration	106	71	7
Intellectual Property Office, Ministry of Economic Affairs, Taiwan	2	2	—
United States Patent and Trademark Office	1	1	—
Intellectual Property Office of Singapore	2	2	—
Department of Intellectual Property, Ministry of Commerce, Cambodia	1	1	—
Intellectual Property Office of Indonesia	1	1	—
Total	<u>113</u>	<u>78</u>	<u>7</u>

Quality Control

The Group strictly controls every production link to ensure its products are of the highest quality and comply with all applicable 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 Licence 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 exporting of sausage casing products to Southeast Asia, Europe and the United States. In addition, the production of all the Group's sausage casing products has strictly complied with the national standards (GB14967-2015) and sausage casing manufacturing industry standards (SB/T10373-2012) of the PRC. 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, and continues to independently undertake third-party inspection assignments, provide various food and relevant product testing services and issue officially recognised testing reports, contribute external sales revenue. Such qualifications recognition is going to lay a solid foundation for the Group to develop into a high-end collagen raw materials base, thereby facilitating the healthy development of the Group's collagen food products, collagen skincare products and collagen medical biomaterials 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 stable customer base. The Group has established its closely-knit yet extensive network of leading meat products processing and sausage manufacturers, not only for cooperation with enterprises in the PRC, but also with those in various overseas markets, such as Southeast Asia, South America and the United States. During the Period, the Group continued to supply high-quality sausage casing products to a number of renowned food suppliers in the PRC. On the basis of stabilising existing customers, the Group continued to solicit new customers and achieved favourable outcome.

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 factors such as the economic downturn, the supply of cattle inner skin was slightly tightening in both 2022 and 2023, which was alleviated during the Period with a decrease in price compared to the Prior Period.

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 October 2027.

FINANCIAL ANALYSIS

Revenue

Revenue decreased by approximately 11.2% to approximately RMB452.4 million for the Period from approximately RMB509.3 million for the Prior Period. During the Period, the operation of some lower-end products was unsatisfactory, and the Group also carried out product upgrading by launching six new product series. The focus of promotion was slowly shifted from the old products to the six new products, which required maintaining communication with customers and optimizing the products according to customers’ needs at the initial stage of launching of the new products. During the period of product transition and coordination with customers, sales was inevitably affected to a certain extent.

Cost of sales

Cost of sales decreased by approximately 19.5% to approximately RMB373.3 million for the Period from approximately RMB463.5 million for the Prior Period, including the write-off and provision of inventory of approximately RMB5.6 million, as compared to approximately RMB6.1 million for the Prior Period. The costs of raw materials for the Period decreased by approximately 24.1% to approximately RMB164.8 million as compared with that of the Prior Period. In addition, the charges for energy decreased by approximately 17.1% to approximately RMB76.4 million. The direct labor costs decreased by approximately 11.6% to approximately RMB75.5 million.

Gross profit

Gross profit increased by approximately 72.5% to approximately RMB79.0 million for the Period from approximately RMB45.8 million for the Prior Period. Gross profit margin increased to approximately 17.5% for the Period from approximately 9.0% for the Prior Period. During the Prior Period, the Group conducted large-scale product trial production and equipment transformations due to new products research and development, as well as expansion of production capacity, while the changeover of production lines required to undergo trial production to test their quality and effectiveness, and the raw materials, auxiliary materials and energy consumed for the trial production were higher than those under normal production, which in turn increased the average unit cost of production. However, during the Period, as the Group has made greater efforts in broadening the supply channels of raw materials to ensure the supply and quality, and enhanced the overall production capacity through technological innovations and renovations in the production of sausage casings, renewal and upgrading of equipment, as well as improvement of the infrastructural facilities in the entire process, which includes upgrading and renovation of the facilities related to raw material warehousing, storage, pre-processing, collagen extraction, sausage casings production and environmental protection, the unit production cost of sausage casings and even the cost of sales have significantly decreased, which in turn improved the gross profit margin.

Other income and gains

Other income and gains decreased by approximately 54.5% to approximately RMB31.9 million for the Period from approximately RMB70.1 million for the Prior Period. Wuzhou Sanjian Pharmaceutical Co., Ltd. (廣西梧州三箭製藥有限公司) (“Wuzhou Sanjian”), a wholly-owned subsidiary of the Group, entered into an assignment agreement and contract (the “Assignment Agreement and Contract”) with Guangxi Weiwei Pharmaceutical Co., Ltd. (廣西維威製藥有限公司) (“Guangxi Weiwei”) on 26 October 2022, pursuant to which Wuzhou Sanjian agreed to assign the pharmaceutical products marketing authorisation in respect of fifty pharmaceutical products to Guangxi Weiwei for an aggregate consideration of approximately RMB42.1 million (5% VAT included). The assignment was completed during the Prior Period and resulted in a gain of approximately RMB39.7 million. Please refer to the announcement of the Group dated 26 October 2022 for details.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 9.8% to approximately RMB18.6 million for the Period from approximately RMB16.9 million for the Prior Period. Selling and distribution expenses as a percentage of revenue increased to approximately 4.1% for the Period from approximately 3.3% for the Prior Period.

Administrative expenses

Administrative expenses decreased by approximately 11.6% to approximately RMB59.6 million for the Period from approximately RMB67.4 million for the Prior Period. The Group's investment in an associate experienced an impairment of approximately RMB1.0 million for the Period due to unfavorable economic and market conditions, as compared to RMB2.9 million for the Prior Period.

Finance costs

Finance costs decreased by approximately 37.3% to approximately RMB3.7 million for the Period from approximately RMB5.9 million for the Prior Period.

Share of loss 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 loss of approximately RMB927,000 for the Prior Period.

Impairment of trade and bills receivables

The Group recorded an impairment of trade and bills receivables of approximately RMB6.4 million for the Period, as compared to approximately RMB5.4 million for the Prior Period.

Income tax expenses

Income tax expenses were approximately RMB9.7 million for the Period, as compared to approximately RMB19.1 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 99.3% and approximately 52.0% 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 rates of major operating subsidiary was mainly due to the provision of dividend withholding tax, losses recorded by some subsidiaries of the Group, and the gain of approximately RMB39.7 million arising from the assignment of the pharmaceutical products marketing authorisation in respect of fifty pharmaceutical products to Guangxi Weiwei by Wuzhou Sanjian during the Prior Period, which resulted in an utilization of deferred tax assets arising from tax loss at the applicable tax rate of 25% was approximately RMB9.9 million.

Profit/(loss) attributable to non-controlling interests

The profit attributable to non-controlling interests for the Period was approximately RMB748,000, which mainly represented the total profit attributable to the non-controlling interests in all non-wholly owned subsidiaries.

Profit attributable to owners of the parent

In light of the above, in particular, although there was an after-tax gain of approximately RMB29.8 million in the Prior Period in respect of other gains on the assignment of marketing authorisations for pharmaceutical products while there was no similar gain in the Period, the profit attributable to owners of the parent increased significantly by approximately 580.2% to approximately RMB8.2 million for the Period from approximately RMB1.2 million for the Prior Period as a result of the significant improvement in the gross profit margin and a significant increase in gross profit by RMB33.2 million in the 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 2024, the cash and cash equivalents together with pledged and time deposits amounted to approximately RMB883.6 million and amounted to approximately RMB765.6 million after deducting the 2023 dividends distributed in early July 2024, representing a decrease of approximately RMB258.4 million (as at 31 December 2023: approximately RMB1,024.0 million) as compared to that as at the end of 2023. Among these balances, over 90% was denominated in Renminbi, and the remaining was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 30 June 2024, the total bank borrowings of the Group amounted to approximately RMB333.3 million, increased by approximately RMB60.5 million (as at 31 December 2023: approximately RMB272.8 million) as compared to that as at the end of 2023, and all bank borrowings were wholly repayable within one year and denominated in Renminbi.

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 RMB550.3 million as at 30 June 2024, and amounted to RMB432.3 million after deducting the dividends distributed in early July 2024, representing a decrease of approximately RMB318.8 million (as at 31 December 2023: approximately RMB751.1 million) as compared to that as at the end of 2023. The debt-to-equity ratio was 15.1% as at 30 June 2024 (as at 31 December 2023: 11.7%). The debt-to-equity ratio was calculated by dividing total bank borrowings and lease liabilities by total equity.

Cash flows

During the Period, the net cash outflow of approximately RMB149.5 million were used in operating activities. The Group launched six new sausage casings products in the second quarter of the year, and in order to cope with the launch of the new products, the Group kept sufficient inventories of raw materials and finished products, thus the total inventories increased. The net cash inflow of approximately RMB23.8 million were generated from investing activities and the net cash inflow of approximately RMB54.3 million were generated from financing activities, respectively. The net cash inflow from investing activities was mainly attributable to the cash inflow from decrease in pledged deposits and non-pledged time deposits with original maturity of over three months when acquired, partly offset by the cash outflow from the acquisition of property, plant and equipment. The net cash inflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowings and new bank borrowings.

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 RMB73.3 million, which was mainly used for expansion of production capacity and equipment transformations, and the capital commitments as at 30 June 2024 amounted to approximately RMB133.4 million, which were mainly related to the expansion, improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2024 of approximately RMB240.0 million will be mainly used for the establishment of additional production lines and the expansion of packaging and collagen extracting facilities.

Pledge of assets

As at 30 June 2024, pledged bank deposits amounted to approximately RMB6.1 million in total.

Contingent liabilities

As at 30 June 2024, the Group was not aware of any material contingent liabilities.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

EVENTS AFTER THE PERIOD

There were no important events affecting the Group that have occurred since 30 June 2024 and up to the date of this announcement.

HUMAN RESOURCES

As at 30 June 2024, the Group recruited a total of approximately 2,730 contract employees (as at 30 June 2023: 2,700). During the Period, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB124.0 million (Prior Period: approximately RMB112.6 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

2024 marks the 45th anniversary of the research and development and application of the Group's products, the 35th anniversary of the establishment of the plant, the 20th anniversary of its restructuring, and the 15th anniversary of its listing in Hong Kong, as well as a critical year for the implementation of the "Fourteenth Five-Year Plan". With the responsibility and mission of being the leader in the collagen industry, Shenguan will continue to increase its investment in scientific research, establish a platform for the development of new quality productivity, promote the synergistic development of the forward-looking industrial chain, and solidify the growth foundation of its results.

The Central Economic Work Conference has outlined nine major missions for the 2024 economic work, which include promoting technological innovation to support the development of a modern industrial system, focusing on expanding domestic demand and making down-to-earth efforts to secure and improve people's livelihoods. The Third Plenary Session of the 20th Central Committee of the Communist Party of China decided to adhere to and implement the "Two Unswerving Principles", i.e. working unswervingly both to consolidate and develop the public sector and to encourage, support and guide the development of the non-public sector, ensuring that all sectors have equal access to the use of production factors under the law, participate in the market competition on an equitable basis and are equally protected by the law, as well as promoting the complementarity strengths and common development of all sectors.

The Group will stress the theme of “seeking progress while upholding and maintaining stability and promoting stability through progress” and make every effort to propel the “realization of enterprise’s high-quality development”. In recent years, the Group has been adhering to the implementation of a development strategy of product diversification based on collagen sausage casings and oriented towards “Three Developments and One Core” of collagen food products, collagen skincare products and collagen medical devices. Although the Group has encountered considerable difficulties during the transformation process, it has laid some foundation after several years of endeavours.

In the first half of 2024, the Group successfully developed and launched six new products of the collagen sausage casings series, namely “fried”, “crispy”, “fresh”, “tender”, “bright” and “colorful”. Since the new products have gained customer recognition, the Group will also carry out the following work to expand the market: (1) further stabilizing the quality of the six new products; (2) further improving the supporting facilities of the production capacity; (3) accelerating the training of marketing teams and technical service teams; (4) utilizing innovative methods to integrate with the traditional sausage casing manufacturing process to upgrade the traditional production process through digitalization; and (5) continuing to innovate production and operation management methods to further enhance efficiency and increase economic benefits.

For collagen food products, the Group is committed to promoting the innovative application of collagen in the food field with the mission of promoting human dietary health, leading the new future of collagen dietary applications, and providing consumers with cost-effective collagen health food. The Group will continue to expand the marketing and promotion of various products such as rice noodles, collagen oatmeal, collagen oat drinks, collagen oat porridge and beef tendon, and will also adjust the marketing strategy and expand the marketing team, and strive to achieve better performance through methods including in-store experience and live streaming.

For collagen skincare products, the Group will conduct in-depth research on the application of collagen in the field of skincare and cosmetics, continue to research and develop new products such as daily skincare products and cleaning products to expand the “Luxianna”, “COLL-FULL”, “Collagen Family” and “coll-shine” product chain, and promote the sales of multiple products. At the same time, the Group will also put more effort into advertising and sales planning, and fully promote online (e-commerce, micro-commerce) and offline sales.

For collagen medical biomaterials, the Group will serve mankind with cutting-edge collagen biotechnology, carry out more extensive and in-depth research on medical collagen application technology, and speed up the clinical trials of new products and the application for production licences. Since launching the Group's medical collagen raw material products in 2023, sales have been steadily increasing and we will further expand the markets of these products in the second half of 2024. Moreover, the Group will continue to promote the production license of the Class III medical device of the “collagen bone filling biomaterials (artificial bone) (膠原蛋白骨填充材料(人工骨))”, and expedite the completion of the various pre-clinical trial work of products such as “oral post-operative medical collagen sponge (口腔術後醫用膠原蛋白海綿)”, “medical collagen dressing (醫用膠原蛋白敷料)” and “small beauty needle (小美容針)”, strive for entering into clinical trials in the second half of 2024.

Finally, the team of the Company will continue to endeavour and speed up the growth of the grand health industry of Shenguan, further broaden the application of collagen technology, and develop more products in the collagen industry chain for the market to generate better investment 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 are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the “Shares”) to, inter alia, any employees (full-time or part-time), directors, consultants and advisors of the Group or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group by 31 December 2022. After 1 January 2023, the share option may only be granted to the eligible participants (as defined under Chapter 17 of the the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) 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. As at 30 June 2024, the remaining life of the Scheme is approximately 6 years.

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. By 31 December 2022, 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. After 1 January 2023, this mandate may be refreshed by shareholders' approval once every three years. Refreshments within a three year period must be approved by shareholders of the Company (other than the controlling shareholders of the Company (or if there is no controlling shareholder, the directors (excluding independent non-executive Directors and chief executive of the Company) and their associates)).

The total number of Shares available for issue under the Scheme as at: (a) 1st January 2024; (b) 30 June 2024; and (c) 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 and 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.

The Listing Rule amendments relating to share schemes becomes effective on 1 January 2023. The grant of the share option under the Scheme is subject to those amendments from 1 January 2023.

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 C1 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 C3 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 comprises of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Zhou Xiaoxiong. 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.

The unaudited interim condensed consolidated financial information of the Group for the Period has 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 2024

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi, Mr. Sha Junqi and Mr. Li Chenglin; 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. Zhou Xiaoxiong.