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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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL AND OPERATING SUMMARY FOR THE YEAR ENDED 31 DECEMBER

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

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

The board (the “Board”) of directors (the “Directors”) of Shenguan Holdings (Group) Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, “Shenguan” or the “Group”) for the year ended 31 December 2021 (the “Year” or the “Period”), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The audited consolidated annual results of the Group for the Year have been reviewed by the audit committee of the Company and approved by the Board on 29 March 2022. The Board is pleased to propose a final dividend of HK2.0 cents per share and a special final dividend of HK4.0 cents per share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
REVENUE	4	1,168,099	961,623
Cost of sales		<u>(857,608)</u>	<u>(722,577)</u>
Gross profit		310,491	239,046
Other income and gains, net	4	53,550	70,645
Selling and distribution expenses		(36,569)	(32,655)
Administrative expenses		(157,715)	(163,748)
Finance costs	6	(5,335)	(2,493)
Share of loss of an associate		<u>(1,432)</u>	<u>(2,357)</u>
PROFIT BEFORE TAX	5	162,990	108,438
Income tax expense	7	<u>(42,974)</u>	<u>(21,669)</u>
PROFIT FOR THE YEAR		<u>120,016</u>	<u>86,769</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial information		<u>5,192</u>	<u>2,606</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Revaluation gain on transfer of right-of-use asset and property, plant and equipment to investment property		<u>2,943</u>	<u>–</u>
NET OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>8,135</u>	<u>2,606</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>128,151</u>	<u>89,375</u>

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
Profit attributable to:			
Owners of the Company		122,652	90,754
Non-controlling interests		(2,636)	(3,985)
		<u>120,016</u>	<u>86,769</u>
Total comprehensive income attributable to:			
Owners of the Company		130,787	93,360
Non-controlling interests		(2,636)	(3,985)
		<u>128,151</u>	<u>89,375</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	9		
Basic (<i>RMB cents per share</i>)		<u>3.8</u>	<u>2.8</u>
Diluted (<i>RMB cents per share</i>)		<u>3.8</u>	<u>2.8</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,056,228	1,091,925
Investment properties		17,017	5,813
Right-of-use assets		115,536	114,025
Investment in an associate		25,176	26,608
Deferred tax assets		18,859	19,494
Long term prepayments and other receivables		49,836	16,917
Pledged deposit		145,000	70,000
Time deposits		155,500	280,000
		<hr/>	<hr/>
Total non-current assets		1,583,152	1,624,782
CURRENT ASSETS			
Inventories		422,280	459,233
Trade and bills receivables	10	190,288	168,350
Prepayments, other receivables and other assets		57,453	50,890
Pledged deposits		60,000	109,660
Cash and cash equivalents		998,897	717,285
		<hr/>	<hr/>
Total current assets		1,728,918	1,505,418
CURRENT LIABILITIES			
Trade and bills payables	11	48,978	130,838
Other payables and accruals		113,109	99,631
Derivative financial instruments		1,506	–
Interest-bearing bank borrowings		418,174	148,391
Lease liabilities		4,109	1,056
Tax payable		32,145	23,321
		<hr/>	<hr/>
Total current liabilities		618,021	403,237
NET CURRENT ASSETS			
		<hr/>	<hr/>
		1,110,897	1,102,181
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		2,694,049	2,726,963

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities		5,669	1,803
Deferred income		24,322	28,418
Deferred tax liabilities		8,470	8,024
		<hr/>	<hr/>
Total non-current liabilities		38,461	38,245
		<hr/>	<hr/>
Net assets		2,655,588	2,688,718
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	27,807	27,807
Reserves		2,630,417	2,660,911
		<hr/>	<hr/>
		2,658,224	2,688,718
Non-controlling interests		(2,636)	–
		<hr/>	<hr/>
Total equity		2,655,588	2,688,718
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL INFORMATION

31 December 2021

1 BASIS OF PREPARATION

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. It has been prepared under the historical cost convention, except for investment properties and derivative financial instruments which have been measured at fair value. This financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendments HKFRS 16 (early adopted)	<i>COVID-19-Related Rent Concession beyond 30 June 2021</i>

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of the manufacture and sale of edible collagen sausage casing products. The Group is also involved in the manufacture and sale of pharmaceutical products, food products, skin care and health care products and bioactive collagen products.

Since over 90% of the Group's revenue is generated 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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Mainland China	1,056,900	856,757
Asia (excluding Mainland China)	60,943	51,412
Other countries/regions	50,256	53,454
	<u>1,168,099</u>	<u>961,623</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 year is set out below:

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

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

4. REVENUE, OTHER INCOME AND GAINS, NET

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers		
Goods transferred at a point in time	1,168,001	961,497
Services transferred over time	98	126
	<u>1,168,099</u>	<u>961,623</u>
Other income		
Bank interest income	38,477	33,252
Other interest income	199	1,360
Sale of dried meat products	2,320	467
Government grants	8,436	30,564
Rental income	1,971	502
Others	889	1,314
	<u>52,292</u>	<u>67,459</u>
Gains		
Gain on disposal of financial assets at fair value through profit or loss	25	2,260
Gain on disposal of right-of-use assets	1,233	926
	<u>1,258</u>	<u>3,186</u>
Total other income and gains, net	<u>53,550</u>	<u>70,645</u>

5. PROFIT BEFORE TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Employee benefit expense (including directors' remuneration):		
Wages and salaries	154,659	146,227
Retirement benefit contributions	38,195	24,464
	<u>192,854</u>	<u>170,691</u>
Cost of inventories sold	771,697	613,771
Depreciation of property, plant and equipment	94,294	98,715
Depreciation of right-of-use assets	5,679	4,201
Amortisation of intangible assets	–	36,104
Changes in fair value of investment properties	1,453	2,088
Fair value losses on derivative financial instrument		
– transactions not qualifying as hedges	1,506	–
Lease payments not included in the measurement of lease liabilities	2,420	2,709
Loss on disposal of items of property, plant and equipment, net	10,206	540
Impairment of property, plant and equipment	–	7,096
Impairment of trade receivables, net	13,227	4,519
Write-off of inventories	8,605	–
(Reversal of provision)/provision against obsolete and slow-moving inventories	<u>(10,367)</u>	<u>26,105</u>

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

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

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

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

8. DIVIDENDS

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend proposed subsequent to the reporting period – HK2.0 cents (2020: HK2.0 cents) per ordinary share	52,521	54,554
Final special dividend proposed subsequent to the reporting period – HK4.0 cents (2020: HK4.0 cents) per ordinary share	105,042	109,109
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	157,563	163,663
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The final dividend and special dividend for the year ended 31 December 2021 proposed subsequent to the reporting period have not been recognised as liabilities at the end of the reporting period and are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company of RMB122,652,000 (2020: RMB90,754,000) and the weighted average number of 3,230,480,000 (2020: 3,230,480,000) ordinary shares in issue during the year.

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

10. TRADE AND BILLS RECEIVABLES

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

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for certain customers.

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

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

11. 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:

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

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

12. SHARE CAPITAL

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

A summary of movements in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Equivalent share premium <i>RMB'000</i>	Equivalent total <i>RMB'000</i>
At 1 January 2020,						
31 December 2020,						
1 January 2021 and						
31 December 2021	<u>3,230,480,000</u>	<u>32,305</u>	<u>10,233</u>	<u>27,807</u>	<u>98,081</u>	<u>125,888</u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

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

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

BUSINESS REVIEW

Collagen Sausage Casings

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

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

Other Products

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

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

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

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

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

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

Honours of the Group

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

Patents

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

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

Quality Control

The Group strictly controls every production step to ensure its products are of the best quality and have complied with all safety requirements. The Group's production and manufacture of collagen sausage casings has passed the certification of ISO9001 Quality Management System, ISO22000 Food Safety Management System, ISO10012 Measurement Management System and ISO14000 Environmental Management System, and has obtained the Food Production Permit and the Filing of Export Food Manufacturers (出口食品生產企業備案證). The Group has also registered with the Food and Drug Administration in the United States for export of sausage casing products to the United States. In addition, the production of all the Group's sausage casing products have strictly complied with the PRC's national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are the recognition of the Group as a trustworthy product supplier to its customers.

Guangxi Wuzhou Zhongguan Testing Technology Services Co., Ltd. ("Wuzhou Zhongguan"), a subsidiary of the Group, is able to examine over 800 indicators, including physicochemical indicators such as heavy metals and microelements, pesticide residues, microorganisms and proteins. Currently, Wuzhou Zhongguan continues to independently undertake third-party inspection assignments, undertake various food and relevant product testing services and issue officially recognised testing reports, delivering external sales revenue. Such qualifications recognition is going to lay a solid foundation for the Group to develop into a collagen materials base, thereby facilitating the development of high-end foods, healthcare products and medicines in the grand health industry.

Customer Relationship

The Group is committed to developing long-term cooperation relationships based on mutual trust with its business partners and has built a sophisticated customer network. The Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only for cooperation with enterprises in the PRC, but also with those in various overseas markets, such as South America, Southeast Asia and the United States. During the Year, the Group continued to supply high-quality sausage casing products to a number of renowned food suppliers in the PRC. On the basis of stabilizing existing customers, the Group continued to solicit new customers and had achieved good results.

Supply of Raw Materials

Cattle inner skin is a major raw material for collagen sausage casing production. The supply of cattle inner skin remained stable over the past few years and such situation is expected to remain unchanged in the coming years. Guangxi Zhiguan Industrial Development Co., Limited (“Guangxi Zhiguan”), one of the Group’s major cattle inner skin providers, applied for the Food Production Licence under the Measures for the Administration of Food Production Licensing and Food Safety Law of the PRC on a voluntary basis. The licence has been granted by Wuzhou Bureau for Administrative Examination and Approval (the local issuing authority of the China Food and Drug Administration (國家食品藥品監督管理總局) where Guangxi Zhiguan is located) with a valid period until November 2022.

FINANCIAL ANALYSIS

Revenue

Revenue increased by approximately 21.5% to approximately RMB1,168.1 million for the Year from approximately RMB961.6 million in 2020 (the “Prior Year”). The increase was mainly due to the gradual control of the epidemic in China and the recovery of the economy. In addition, the new products of imitated high-end natural casings developed by the Group have gradually been recognised by the majority of customers, and the sales volume of casings increased significantly as compared with the Prior Year.

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution expenses

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

Administrative expenses

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

For the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets have been amortised over five years, and these intangible assets were fully amortised in the third quarter of 2020. The related amortisation expense was approximately RMB35.9 million for the Prior Year. After deducting the non-controlling interests and deferred tax effect of Guangdong Victory, the effect of the related amortisation expense on the net profit attributable to owners of the Group for the Prior Year was approximately RMB21.6 million.

Finance costs

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

Share of loss of an associate

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

Income tax expenses

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

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

Loss attributable to non-controlling interests

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

Profit attributable to owners of the Company

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

Liquidity and Capital Resources

Cash and bank borrowings

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

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

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

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

Derivative financial instruments

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

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

Cash flows

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

Exposure to exchange risks

The Group mainly operates in the PRC with most of its transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations are mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board believes that the future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

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

Capital expenditure

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

The estimated capital expenditure of the Group for 2022 amounted to approximately RMB100.0 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business to increase productivity, as well as expansion of production facilities of the newly developing business, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of assets

As at 31 December 2021, pledged bank deposits amounted to approximately RMB205.0 million in total.

Contingent liabilities

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

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

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

Events after the Year

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

Human Resources

As at 31 December 2021, the Group hired a total of approximately 2,650 contract employees (as at 31 December 2020: 2,530). During the Year, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB192.9 million (Prior Year: approximately RMB170.7 million). In order to attract and retain high quality talents to ensure smooth business operation and to cope with the need of the Group's continuing expansion, the Group offers competitive remuneration packages with reference to the market conditions as well as individual qualifications and experience.

PROSPECTS AND STRATEGIES

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

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

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

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

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

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

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

Finally, the Shenguan team will continue to endeavour and propel the continuous growth of grand health industry of Shenguan and further broaden the application of collagen technology to generate better returns for the shareholders.

OTHER INFORMATION

Dividends

The Directors recommended the payment of a final dividend of HK2.0 cents per ordinary share and a special final dividend of HK4.0 cents per ordinary share for the Year to shareholders whose names appear on the register of members of the Company on 10 June 2022 (Friday). Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend and the special final dividend will be paid on or around 30 June 2022 (Thursday).

Closure of Register of Members

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 31 May 2022 (Tuesday), the register of members of the Company will be closed from 26 May 2022 (Thursday) to 31 May 2022 (Tuesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 25 May 2022 (Wednesday). For determining entitlement to the final dividend and the special final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 7 June 2022 (Tuesday) to 10 June 2022 (Friday), both days inclusive. The record date will be 10 June 2022 (Friday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 6 June 2022 (Monday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final dividend and the special final dividends (if approved at the forthcoming annual general meeting), all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above respectively.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Model Code Set out in Appendix 10 to the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the members of senior management of the Group.

The Company has made specific enquiry with all the Directors and all the Directors have confirmed that they had complied with the Model Code during the Year. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company during the Year.

Corporate Governance Code

The Company's corporate governance practices for the Year are based on the code provisions as set out in the Corporate Governance Code (the "Code") version up to 31 December 2021, which contained in Appendix 14 to the Listing Rules. The Board will adopt the new Code (version with effect from 1 January 2022), the requirements under which shall apply to the Company's corporate governance report in the forthcoming financial year ending 31 December 2022.

Save as disclosed below, the Company had complied with all the code provisions as set out in the Code version up to 31 December 2021 during the Year.

Under code provision A.2.1 of the Code (which has been re-numbered as code provision C.2.1 since 1 January 2022), the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Ms. Zhou Yaxian, who acts as the chairman (the "Chairman") and the president of the Company, is also responsible for overseeing the general operations of the Group. The Company has not appointed any chief executive officer and the daily operations of the Group are delegated to other executive Directors, the management and various department heads. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

The Company understands the importance to comply with code provision A.2.1 of the Code and will continue to consider the feasibility of appointing the chief executive. The Company will make timely announcement if the chief executive has been appointed.

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

Audit Committee

The audit committee of the Board had reviewed the audited consolidated annual results of the Group for the Year and considered that the Company had complied with all applicable laws, accounting standards and requirements, and had made adequate disclosure.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, and the related notes thereto for the Year as set out in this announcement have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Ernst & Young on this preliminary announcement.

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

Hong Kong, 29 March 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.