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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)

2023 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL AND OPERATING SUMMARY

	For the six months ended 30 June		
	2023	2022	Change
Revenue *(RMB million)*	**509.3**	430.8	+18.2%
Profit Attributable to Owners of the Company *(RMB million)*	**1.2**	13.5	-91.1%
Basic Earnings Per Share *(RMB cents)*	**0.04**	0.42	-90.5%
Interim Dividend Per Share *(HK cents)*	**–**	–	N/A
Cash Inflow (Outflow) from Operating Activities *(RMB million)*	**24.9**	(13.7)	N/A

	1H 2023	FY 2022	1H 2022
Total Assets *(RMB million)*	**2,906.6**	3,354.4	3,358.0
Inventory Turnover Day – Raw Materials *(days)**	**38.7**	39.8	50.6
Inventory Turnover Day – Finished Goods & Work in Progress *(days)**	**157.5**	152.5	195.4
Trade Receivables Turnover Day *(days)**	**68.0**	70.2	77.4
Trade Payables Turnover Day *(days)**	**62.8**	51.0	53.0

* 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 2023 (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 2023 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 22 August 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	4	**509,306**	430,791
Cost of sales		**(463,507)**	(348,848)
Gross profit		**45,799**	81,943
Other income and gains, net	5	**70,069**	30,876
Selling and distribution expenses		**(16,920)**	(13,944)
Administrative expenses		**(67,434)**	(69,690)
Finance costs	6	**(5,926)**	(3,545)
Share of loss of an associate		**(927)**	(287)
Impairment of trade and bills receivables		**(5,374)**	(3,496)
PROFIT BEFORE TAX	7	**19,287**	21,857
Income tax expense	8	**(19,147)**	(9,673)
PROFIT FOR THE PERIOD		**140**	12,184

	Note	Six months ended 30 June 2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**7,579**	2,805
NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**7,579**	2,805
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**7,719**	14,989
Profit/(loss) attributable to:			
Owners of the Company		**1,210**	13,535
Non-controlling interests		**(1,070)**	(1,351)
		140	12,184
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**8,789**	16,340
Non-controlling interests		**(1,070)**	(1,351)
		7,719	14,989
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10		
Basic and diluted *(RMB cents per share)*		**0.04**	0.42

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2023

	Notes	**30 June 2023 (Unaudited)** *RMB'000*	31 December 2022 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**999,466**	1,006,013
Investment properties		**15,098**	15,870
Right-of-use assets		**110,643**	111,906
Investment in an associate		**13,673**	17,500
Deferred tax assets		**16,417**	25,843
Long term prepayments and other receivables		**49,267**	52,037
Pledged deposits		**–**	60,000
Time deposits		**119,500**	95,500
Total non-current assets		**1,324,064**	1,384,669
CURRENT ASSETS			
Inventories		**497,186**	496,280
Trade and bills receivables	11	**173,139**	206,975
Prepayments, other receivables and other assets		**55,927**	53,850
Derivative financial instruments		**–**	3,100
Tax recoverable		**1,059**	1,431
Pledged deposits		**6,001**	254,156
Cash and cash equivalents		**849,238**	953,950
Total current assets		**1,582,550**	1,969,742
CURRENT LIABILITIES			
Trade and bills payables	12	**69,266**	85,003
Other payables and accruals		**122,394**	161,322
Interest-bearing bank borrowings		**200,123**	535,242
Lease liabilities		**4,200**	3,394
Tax payable		**20,947**	20,765
Dividend payable		**116,897**	–
Total current liabilities		**533,827**	805,726
NET CURRENT ASSETS		**1,048,723**	1,164,016
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,372,787**	2,548,685

	Note	**30 June 2023 (Unaudited)** *RMB'000*	31 December 2022 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Lease liabilities		**1,431**	2,089
Deferred income		**19,676**	20,941
Deferred tax liabilities		**3,225**	6,213
Total non-current liabilities		**24,332**	29,243
Net assets		**2,348,455**	2,519,442
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	**27,807**	27,807
Reserves		**2,326,449**	2,496,366
		2,354,256	2,524,173
Non-controlling interests		**(5,801)**	(4,731)
Total equity		**2,348,455**	2,519,442

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 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 2022.

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 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pilar Two Model Rules*

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have any significant impact on the financial position or performance of the Group.

The adoption of amendments to HKAS 12 did not have any impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the interim condensed consolidated statements of cash flows for the six months ended 30 June 2023 and 2022.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

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

Since over 90% of the Group's revenue is generated by its edible collagen sausage casing products, no operating segments have been aggregated to form the above reportable operating segment.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Mainland China	**441,033**	377,676
Asia (excluding Mainland China)	**30,197**	24,095
Other countries/regions	**38,076**	29,020
	509,306	430,791

(b) Non-current assets

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

Information about major customers

Revenue from major customers of the Group, excluding value added tax, which individually accounted for 10% or more of the Group's revenue for the period is set out below:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Customer 1	**118,954**	54,405
Customer 2	**69,334**	70,635

4. REVENUE

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Goods transferred at point in time	**509,282**	430,769
Services transferred over time	**24**	22
	509,306	430,791

5. OTHER INCOME AND GAINS, NET

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Bank interest income	**21,854**	22,798
Other interest income	**–**	100
Government grants	**2,319**	4,447
Fair value gain on derivative financial instrument	**3,467**	–
Gain on disposal of intangible assets	**39,726**	–
Sale of auxiliary materials	**654**	1,914
Gain on disposal of items of property, plant and equipment, net	**520**	–
Rental income	**1,050**	1,326
Others	**479**	291
	70,069	30,876

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank loans	**5,808**	3,346
Interest on lease liabilities	**118**	199
	5,926	3,545

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**416,623**	308,453
Depreciation of property, plant and equipment	**48,638**	45,796
Depreciation of right-of-use assets	**3,330**	3,408
Fair value (gain)/losses on derivative financial instrument – transactions not qualifying as hedges	**(3,467)**	2,925
Impairment of trade receivables	**5,374**	3,496
(Gain)/loss on disposal of items of property, plant and equipment, net	**(520)**	388
Impairment of an investment in an associate	**2,900**	–
Write-off of inventories	**3,192**	3,490
Provision of obsolete and slow-moving inventories	**2,899**	2,131
Foreign exchange differences, net	**2,524**	6,626

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% (2022: 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 (2022: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 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	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current – PRC	**12,290**	12,129
Current – Hong Kong	**419**	189
Deferred tax	**6,438**	(2,645)
Total tax charge for the period	**19,147**	9,673

9. DIVIDENDS

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Final dividend declared and paid for 2022 – HK2.0 cents (2021: HK2.0 cents) per ordinary share	**59,569**	55,253
Special dividend declared and paid for 2022 – HK4.0 cents (2021: HK4.0 cents) per ordinary share	**119,137**	110,507
	178,706	165,760

The directors of the Company did not propose any interim dividend in respect of the reporting period (six months ended 30 June 2022: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts for the period ended 30 June 2023 is based on the profit for the period attributable to owners of the Company of RMB1,210,000 (six months ended 30 June 2022: RMB13,535,000) and the weighted average number of ordinary shares of 3,230,480,000 (six months ended 30 June 2022: 3,230,480,000) in issue during the period ended 30 June 2023.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2023 (six months ended 30 June 2022: 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 2023	31 December 2022
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Within 1 month	**68,125**	75,324
1 month to 3 months	**81,484**	74,875
3 months to 6 months	**12,588**	48,381
6 months to 1 year	**3,561**	3,998
Over 1 year	**7,381**	4,397
	173,139	206,975

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 2023 (Unaudited) *RMB'000*	31 December 2022 (Audited) *RMB'000*
Within 1 month	**22,906**	31,720
1 to 2 months	**6,629**	9,261
2 to 3 months	**21,615**	13,651
3 to 6 months	**11,699**	24,928
Over 6 months	**6,417**	5,443
	69,266	85,003

13. SHARE CAPITAL

Shares

	30 June 2023 (Unaudited) *HK$'000*	31 December 2022 (Audited) *HK$'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 2022: 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 six months ended 30 June 2023, China's economy has gradually stepped into a normal development track after the mitigating COVID-19 epidemic, with market demand gradually recovering and production and supply continuing to increase. The implementation of various policies and measures to stimulate domestic demand has further unleashed the country's economic potential, particularly in driving economic growth through increased consumption. In the first half of 2023, China's Gross Domestic Product grew by 5.5% year-on-year, significantly higher than the 3% economic growth rate for the entire year of 2022 which indicates an overall escalation in economic growth. However, the economy as a whole is still beset by problems in various aspects in the post-epidemic period, such as the impact of adverse factors like high raw materials, energy and transportation costs, which have fueled uncertainties in the production and operation of various enterprises.

BUSINESS REVIEW

As an emerging strategic industry in the 21st century, the nutrition, health care and medical industries have a huge demand for collagen especially. The development and application of collagen as the mainstream of the grand health industry are experiencing rapid growth in both domestic and foreign markets. Numerous products utilizing collagen as raw materials have been listed in the national emerging strategic industries catalog.

Collagen Sausage Casings

During the Period, as affected by factors such as rising raw material prices, reduced supply of raw materials, increased trial production costs after the transformation of the production line, and increased electricity prices, the production volume declined and production costs increased, resulting in lower gross profit margins. However, both sales volume and sales revenue increased as compared to the same period last year, with particularly notable growth in exported products sales, resulting in overall stability and an upward trend in production and operation, with sales volume increased by approximately 15.2%. The Group continued to adjust its product structure and improved the production standards for products replacing natural sausage casings and medium and large-sized diameter sausage casings, upgraded product quality and increased the proportion of high-quality products, so as to progressively meet the needs of the sausages industry in adjusting its product structure, which resulted in an increase in the average selling price of approximately 1.2%. The Group is committed to product quality which was implemented in all aspects of production. Through process reengineering and equipment reengineering, the Group has overcome the impact of raw material quality and improved product suitability.

In addition, the Group has dismantled a total of 56 old production lines with high energy consumption, low output and high maintenance cost, and carried out expansion and transformations on the existing basis, and will complete investment in a total of 68 lines by the end of 2023 to expand to 300 production lines through equipment transformations. While expanding the production capacity of sausage casings, the Group has been promoting the standardisation of equipment reengineering, including the technical transformation of production lines, equipment and components for standardisation, which will be conducive to the standardisation of management, enhancement of production efficiency, lowering of production costs and maintenance costs of equipment, etc. During the Period, the Group has invested RMB45.5 million in capital expenditures, mainly for expansion of production capacity and equipment transformations, which has enhanced the production capacity, and the production lines were 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. During the Period, gross profit decreased by approximately RMB33.8 million due to the related trial production expenses. In order to further enhance work efficiency, the Group has also stepped up its efforts in implementing the technical transformation of production line automation and gradually improving its enterprise resource planning (“ERP”) system, laying a stronger foundation for standardised and information-based management of the Group, reducing the reliance on labour and enhancing production efficiency.

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, except for collagen sausage casings and traditional Chinese medicines, the sales revenue of other products increased by approximately 115.3% as compared with the same period last year.

For collagen food products, the Group’s products already include collagen rice noodles, collagen drinks, beef tendon and collagen oat drinks, and has made various preparations for mass production.

For collagen skincare products, the Group further improved the quality of skincare products, continuously enhancing product formula, and developed a number of new products while improving the supporting of production capacity for each product. Related products will be launched on the market soon.

For collagen medical devices, Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") and Wuzhou Victory Biotech Co., Ltd. ("Wuzhou Victory") have both obtained dual certification of ISO13485 and ISO22442 from the European Union. We have filed the medical collagen raw materials on the website published by relevant state authorities, which will help improve the legal feasibility of customers' selection of the Group's medical collagen raw materials. The "collagen bone filling biomaterials (artificial bone) (膠原蛋白骨填充材料（人工骨))" is undergoing clinical trials in several hospitals, and the trial cases have been successfully completed with expected results.

The Group's "Preparation Method of Low Endotoxin Collagen (低內毒素膠原蛋白的製備方法)" was granted a national invention patent, U.S. invention patent and Taiwan invention patent. The trial production of "band-aids", the Type I medical device products, has been successfully completed, and the registration of Type II product is in process. The Group is also in the process of the animal trials and discussions on clinical trial protocols for "medical collagen sponges (醫用膠原蛋白海綿)" and "medical beauty product (small beauty needle) (醫美產品（小美容針))".

Honours of the Group

During the Period, the Group was awarded the "Guangxi Key Foreign Trade Brand Enterprise (廣西重點外貿品牌企業)" by the Department of Commerce of Guangxi Zhuang Autonomous Region (廣西壯族自治區商務廳), the "National Green Factory (國家級綠色工廠)" by the Ministry of Industry and Information Technology of the People's Republic of China and the "Guangxi Technology Innovation Center in the Professional Technology Sector (廣西專業技術領域類技術創新中心)" by the Department of Science and Technology of Guangxi Zhuang Autonomous Region (廣西壯族自治區科學技術廳), in recognition of the Group's outstanding performance.

Patents

As at 30 June 2023, the Group had the following patents:

	Total number of patents granted	Within the validity period	Under acceptance
China National Intellectual Property Administration	105	71	8
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	
Total	111	77	8

Quality Control

The Group strictly controls every production step 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 have strictly complied with the national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012) of the People's Republic of China (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 collagen raw materials base, thereby facilitating the healthy 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 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 the factors such as the economic downturn, the supply of cattle inner skin was slightly tightening in both 2022 and the Period, and the prices of which, as well as the prices of other raw materials and auxiliary materials, remained high, adding cost pressure to the Group.

Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan"), one of the Group's major cattle inner skin providers, applied for the Food Production Licence under "the Measures for the Administration of Food Production Licensing" of the PRC and "Food Safety Law" of the PRC on a voluntary basis. The licence has been granted by Wuzhou Bureau for Administrative Examination and Approval with a valid period until October 2027.

FINANCIAL ANALYSIS

Revenue

Revenue increased by approximately 18.2% to approximately RMB509.3 million for the Period from approximately RMB430.8 million for the six months ended 30 June 2022 (the "Prior Period"). The increase was mainly due to vibrant economic activities and the occasions for people going out to consume and dine have increased significantly as a result of the mitigating COVID-19 epidemic, hence resulting in the increase in demand for our products, with sales volume increased by approximately 15.2%. In addition, the Group continued to adjust its product structure and improved the production standards for products replacing natural sausage casings and medium and large-sized diameter sausage casings, upgraded product quality and increased the proportion of high-quality products, which resulted in an increase in the average selling price of approximately 1.2%.

Cost of sales

Cost of sales increased by approximately 32.9% to approximately RMB463.5 million for the Period from approximately RMB348.8 million for the Prior Period, including the write-off and provision of inventory of approximately RMB6.1 million, as compared to approximately RMB5.6 million for the Prior Period. Excluding such items, the cost of sales for the Period increased by approximately 33.3% as compared to the Prior Period. The costs of raw materials for the Period increased by approximately 37.8% to approximately RMB217.2 million as compared with that of the Prior Period. In addition, the charges for energy increased by approximately 36.3% to approximately RMB92.1 million. The direct labor costs increased by approximately 35.3% to approximately RMB85.5 million.

Gross profit

Gross profit decreased by approximately 44.1% to approximately RMB45.8 million for the Period from approximately RMB81.9 million for the Prior Period. Gross profit margin decreased to approximately 9.0% for the Period from approximately 19.0% for the Prior Period, mainly attributable to the large-scale product trial production and equipment transformations conducted by the Group due to new products research and development, as well as expansion of production capacity. During the Period, the Group has invested RMB45.5 million in capital expenditures, mainly for expansion of production capacity and equipment transformations with a view to not only expanding the production capacity, but also eliminating the old production lines with high energy consumption, low productivity or high maintenance cost. After the completion of equipment transformations, the production capacity increased by approximately 25–30%, the production lines were 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. During the Period, gross profit decreased by approximately RMB33.8 million due to the related trial production expenses.

The continuous increase in prices of raw materials, auxiliary materials and energy during 2022 resulted in the average cost of inventories of finished sausage casing products at the beginning of 2023 being approximately 10.6% higher than that at the beginning of 2022, coupled with the fact that the prices of raw materials, auxiliary materials and energy remained high during the Period, all of which resulted in a significant increase in the unit cost of production as compared to the Prior Period. However, the impact was partially offset by higher sales volume and average selling prices of products.

Other income and gains

Other income and gains increased by approximately 126.9% to approximately RMB70.1 million for the Period from approximately RMB30.9 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 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 21.3% to approximately RMB16.9 million for the Period from approximately RMB13.9 million for the Prior Period. Selling and distribution expenses as a percentage of revenue increased to approximately 3.3% for the Period from approximately 3.2% for the Prior Period.

Administrative expenses

Administrative expenses decreased by approximately 3.2% to approximately RMB67.4 million for the Period from approximately RMB69.7 million for the Prior Period. The Group recorded an exchange loss of approximately RMB6.6 million in total for the Prior Period due to the depreciation of Renminbi against the U.S. dollars and Hong Kong dollars, as compared to an exchange loss of approximately RMB2.5 million in total for the Period. In addition, the Group's investment in an associate experienced an impairment of approximately RMB2.9 million for the Period due to unfavorable economic and market conditions.

Finance costs

Finance costs increased by approximately 67.2% to approximately RMB5.9 million for the Period from approximately RMB3.5 million for the Prior Period, mainly attributable to the hiking market interest rates.

Share of loss of an associate

During the Period, Ferguson Wuhan contributed a share of loss of approximately RMB927,000 to the Group as compared to a share of loss of approximately RMB287,000 for the Prior Period.

Impairment of trade and bills receivables

The Group recorded an impairment of trade and bills receivables of approximately RMB5.4 million for the Period, as compared to approximately RMB3.5 million for the Prior Period.

Income tax expenses

Income tax expenses were approximately RMB19.1 million for the Period, as compared to approximately RMB9.7 million for the Prior Period. The Company's major operating subsidiary, Guangxi Shenguan Collagen Biological Group Co., Ltd. (廣西神冠膠原生物集團有限公司) ("Shenguan Collagen") 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 44.3% and approximately 99.3% 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 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.

Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Period was approximately RMB1.1 million, which mainly represented the total loss attributable to the non-controlling interests in all non-wholly owned subsidiaries.

Profit attributable to owners of the Company

As stipulated in the aforesaid reasons, profit attributable to owners of the Company decreased by approximately 91.1% to approximately RMB1.2 million for the Period from approximately RMB13.5 million for the Prior Period.

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank borrowings

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

As at 30 June 2023, the cash and cash equivalents together with pledged and time deposits amounted to approximately RMB974.7 million and amounted to RMB857.8 million after deducting part of the 2022 dividends by bank transfer that was completed in early July 2023, representing a decrease of approximately RMB505.8 million (as at 31 December 2022: approximately RMB1,363.6 million) as compared to that as at the end of 2022. 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 2023, the total bank borrowings of the Group amounted to approximately RMB200.1 million, decreased by approximately RMB335.1 million (as at 31 December 2022: approximately RMB535.2 million), 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 RMB774.6 million as at 30 June 2023, and amounted to RMB657.7 million after deducting the dividends by bank transfer that was completed in early July 2023, representing a decrease of approximately RMB170.7 million as compared to that as at the end of 2022. The debt-to-equity ratio was 8.8% as at 30 June 2023 (as at 31 December 2022: 21.5%). 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 inflow of approximately RMB24.9 million were generated from operating activities, the net cash inflow of approximately RMB343.6 million were generated from investing activities and the net cash outflow of approximately RMB403.8 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 outflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowings and new bank borrowings, and the payment of 2022 final dividends.

Derivative financial instruments

During the Prior Period, in order to control the exchange rate risk, the Group entered into a forward foreign exchange contract with a bank for a bank loan with a principal of US$28.6 million, and sold RMB and buy U.S. dollars at a fixed forward exchange rate, so as to pay the principal and interest of the U.S. dollars loan at maturity. As at 31 December 2022, the fair value of the contract was an asset of approximately RMB3.1 million, and the contract was settled on 17 May 2023. Please refer to the announcement of the Group dated 20 May 2022 for details.

Exposure to exchange risks

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

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

Capital expenditure

The capital expenditure of the Group during the Period amounted to approximately RMB45.5 million, which was mainly used for the expansion of production capacity and equipment transformations, and the capital commitments as at 30 June 2023 amounted to approximately RMB145.2 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2023 amounted to approximately RMB100.0 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business to increase productivity, expansion of the production capacity of new collagen application products, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of assets

As at 30 June 2023, pledged bank deposits amounted to approximately RMB6.0 million in total.

Contingent liabilities

As at 30 June 2023, 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.

On 26 October 2022, Wuzhou Sanjian, a wholly-owned subsidiary of the Group, entered into the Assignment Agreement and Contract with Guangxi Weiwei, pursuant to which Wuzhou Sanjian agreed to (i) assign the pharmaceutical products marketing authorisation in respect of fifty pharmaceutical products to Guangxi Weiwei for an aggregate consideration of approximately RMB42.11 million (5% VAT included); and (ii) sell the raw materials to Guangxi Weiwei for an aggregate consideration of approximately RMB7.54 million (VAT excluded). The assignment was completed during the Period. Please refer to the announcement of the Group dated 26 October 2022 for details.

EVENTS AFTER THE PERIOD

There were no important events affecting the Group that have occurred since 30 June 2023.

HUMAN RESOURCES

As at 30 June 2023, the Group recruited a total of approximately 2,700 contract employees (as at 30 June 2022: 2,690). During the Period, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB112.6 million (Prior Period: approximately RMB93.2 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

Looking ahead into the second half of 2023, the international political and economic situation remains volatile and complicated, the domestic economy has rebounded but is not yet firmly established, the tight supply of raw materials has not yet been alleviated, prices are still high, and enterprises are still facing more problems in production and operation. However, the Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Development and Growth of the Private Economy (《中共中央國務院關於促進民營經濟發展壯大的意見》) issued in July 2023 and the Notice on the Implementation of Certain Recent Measures to Promote the Development of the Private Economy (《關於實施促進民營經濟發展近期若干舉措的通知》) issued in August 2023 have brought new opportunities to the Group. The promulgation of these policies focuses on solving the outstanding problems of private enterprises, and specific measures in the areas of promoting fair access, strengthening support for essential factors, reinforcing protection under the rule of law, optimising enterprise-related services, and creating a favourable atmosphere have injected strong impetus into the start-up of private enterprises.

Looking forward to the development of the industry, there will be three factors that are favourable to our development: firstly, the implementation of tax concessions, capital support and other supportive policies by the State to support the development of upstream and downstream linkages; secondly, under the influence of consumer upgrading, medium- and high-end meat products with special characteristics has become more popular with consumers, and new flavours and products are gradually accepted by consumers; and thirdly, the integration of the industry including the vertical integration of the slaughtering and meat processing industry, the upstream and downstream integration, as well as the horizontal integration through mergers and acquisitions within the industry. All these policies and circumstances are favourable to the development of the industry, market demand will continue to grow, and the meat products industry in the PRC will continue to maintain sound development momentum.

Taking into account our actual situation, in respect of the collagen casing business in the second half of this year, the Group will (1) strengthen the management of production targets, in particular, enhance the inspection and assessment of the completion rate of the production plan; (2) step up the construction of production expansion projects to ensure their completion according to schedule; (3) continue to steadily push forward the construction of automation projects to improve production efficiency; (4) continuously improve production standardisation management; (5) constantly improve the performance appraisal programme and strengthen the assessment of quantitative indicators; and (6) fully enable ERP and give full play to the system functions.

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 rice noodles and collagen oat drinks, with a view to launching all the developed new food products into the market within 2023. At the same time, the Group will also adjust the marketing strategy and expand the marketing team, and strive to achieve better performance through methods including live streaming.

For collagen skincare products, the Group will research and develop new products such as daily skin care products and cleaning products to expand the "Luxianna" product chain, increase the development of several "COLL-FULL" new products series and promote the sales of multiple products. At the same time, the Group will also put more efforts into advertising and sales planning, and fully promote online (e-commerce, micro commerce) and offline sales.

For collagen medical devices, the Group will further intensify the research on medical collagen, speed up the clinical trials of new products and the application for production licenses. The Group will continue to promote the production approval 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 "medical collagen sponges (醫用膠原蛋白海綿)" as soon as possible.

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, so as to generate better returns on investment 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 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 (the "Stock Exchange")) 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 2023, the remaining life of the Scheme is approximately 7 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 2023; (b) 30 June 2023; 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 14 to the Listing Rules during the Period.

Under code provision C.2.1 of the Code, the roles of chairman and the chief executive should be separate and should not be performed by the same individual.

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

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

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

MODEL CODE TO THE LISTING RULES

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

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

AUDIT COMMITTEE

The Audit Committee comprises 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.

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

Hong Kong, 22 August 2023

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.