神冠
SHENGUAN

# Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code: 00829



## Interim Report 2019

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS
Ms. Zhou Yaxian *(Chairman and President)*
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

## NON-EXECUTIVE DIRECTOR
Dato' Sri Low Jee Keong

## INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

## COMPANY SECRETARY
Mr. Ng Yuk Yeung *FCCA CPA CFA*

## LEGAL ADVISOR AS TO HONG KONG LAWS
Loong & Yeung
Room 1603, 16/F
China Building
29 Queen's Road Central
Hong Kong

## REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## HONG KONG OFFICE
Unit 2902, Sino Plaza
255–257 Gloucester Road
Causeway Bay
Hong Kong

## MAINLAND OFFICE
29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

## PRINCIPAL BANKERS
Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
Bank of Communications
China Construction Bank
The Hongkong and Shanghai Banking Corporation

## AUDITOR
Ernst & Young
*Certified Public Accountants*
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

# INFORMATION FOR INVESTORS

## LISTING INFORMATION

Listing: The Stock Exchange of Hong Kong Limited
Stock code: 00829
Ticker symbol
Reuters: 0829.HK
Bloomberg: 829: HK Equity

## KEY DATES

13 October 2009
Listing on the Hong Kong Stock Exchange

19 August 2019
Announcement of 2019 Interim Results

## REGISTRAR & TRANSFER OFFICES

### Principal:

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

### Hong Kong Branch:

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## SHARE INFORMATION

Board lot size: 2,000 shares

Shares in issue as at 30 June 2019
3,230,480,000 shares

Market capitalization as at 30 June 2019
HK$1,066,058,400

Basic earnings per share for 2019
Half year RMB0.97 cents

## ENQUIRIES CONTACT

Wonderful Sky Financial Group Holdings Limited

Email: *shenguan@wsfg.hk*

## WEBSITE

*www.shenguan.com.hk*

# KEY FINANCIAL HIGHLIGHTS

## FINANCIAL AND OPERATING SUMMARY

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| Revenue (RMB million) | **386.8** | 376.2 | +2.8% |
| Profit Attributable to Owners of the Company (RMB million) | **31.4** | 37.2 | -15.7% |
| Basic Earnings Per Share (RMB cents) | **0.97** | 1.14 | -14.9% |
| Interim Dividend Per Share (HK cents) | **–** | – | N/A |
| Cash Inflow from Operating Activities (RMB million) | **104.7** | 115.2 | -9.2% |

| | **1H 2019** | FY 2018 | 1H 2018 |
|---|---|---|---|
| Total Assets (RMB million) | **3,012.3** | 3,117.7 | 3,080.9 |
| Inventory Turnover Day – Raw Materials (days)* | **34.7** | 29.2 | 36.8 |
| Inventory Turnover Day – Finished Goods & Work in Progress (days)* | **357.0** | 338.4 | 429.9 |
| Trade Receivables Turnover Day (days)* | **99.7** | 107.7 | 120.4 |
| Trade Payables Turnover Day (days)* | **68.5** | 112.8 | 128.6 |

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

During the six months ended 30 June 2019 (the "Period"), facing the volatile and complicated external environment and economic downward pressure, China's economic growth remained a steady upward momentum overall, with major macro-economic indicators operating within a reasonable range and optimised adjustments in economic structure. By adopting a "positive" fiscal policy with a "prudent" monetary policy, the China economy is gradually moving towards a high-quality development path.

According to the National Bureau of Statistics of the People's Republic of China (the "PRC"), from January to June 2019, China's gross domestic product grew by 6.3% year-on-year; consumption growth accelerated in general, with total retail sales of consumer goods grew by 8.4% in the first half of the year, representing a steady upward momentum in general. The output of pork, beef, mutton and poultry was 39.11 million tons, down by 2.1% year-on-year, among which pork output decreased by 5.5% year-on-year. In the first half of 2019, owing to the continuously impact of African swine fever and the far-reaching impact of the epidemic on the swine cycle and the swine industry in China, together with the oversupply of collagen sausage casings resulted from the stagnant growth in the domestic meat product industry, the market competition therefore remained fierce.

The Group will ride on the opportunities to respond to the changes of external market in a proactive manner. Based on the principal business of collagen sausage casings, the Group comprehensively promoted the production and operation of collagen food products, skincare products and medicinal products, extended its reach to the great health industry and the strategic emerging industries and expanded the layouts of collagen applications. By centering on the theme of "principal business consolidation and new product launch", the Group vigorously explored new markets and made continuous adjustments to foster the overall positive improvement of the Group's production and operation conditions, thereby creating new products and new performance.

## BUSINESS REVIEW

Thanks to the joint efforts of its employees, the Group maintained a leading position in the domestic collagen sausage casing market. Since the fourth quarter of 2018, raw material prices have risen due to the continuously improved environmental protection requirements in China. To minimize the impact, the Group has actively taken effective measures to control production costs, but gross profit margin still declined. Since the second quarter of 2019, the Group continues to negotiate with raw material suppliers and as a result, raw material prices saw a certain extent of decrease.

During the Period, in response to the complicated and ever-changing market environment such as declined total meat production as well as increased raw material price, staff wages and social insurance fees, by centering on "principal business consolidation and new product launch" as its work approach, the Group continued to upgrade product mix, improve product quality and further tap into new markets by enhancing product development, market establishment and corporate management. At the same time, the Group took initiatives in launching the automation and intelligent transformation of machinery, with stringent regulations on production and technical operation processes. Moreover, the Group also actively promoted staff performance assessment and incentive mechanism to enhance staff motivation, resulted in improved operation quality and expanded market capability of the Group. Besides, the Group also further strengthened food safety management and improved environmental protection facilities to further standardize food safety.

In June 2019, the Group signed a cross-border cooperation project with Alibaba.com to actively expand new overseas markets and explore new opportunities for traditional manufacturing enterprises in the "Internet+" era, so as to promote brand global presence and provide a new foothold for the Group's development.

### Industrial Layout and Technological Research & Development

The Group is committed to stepping up the development of its collagen technologies, with an aim to establishing the safe, reliable and standardized health industry. The move will also upgrade and transform the collagen industry and proactively promote the application of collagen in the health industry. The Group is striving to research and develop new technologies and new products in various fields covering collagen food products, healthcare products, skincare products and medicinal products, yet it is uncertain whether the research and development of new products will be successful and the products will be launched to the market. Considerable time is required to achieve the desired goals.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan"), a wholly-owned subsidiary of the Company, maintained the research and development platforms titles as the national-grade "Post-doctoral Science Research Workstation" (博士後科研工作站), "Cluster of Collagen Technology Talents in Guangxi" (廣西膠原蛋白技術人才小高地), "Guangxi Collagen Engineering Technology Research Center" (廣西膠原蛋白工程技術研究中心), "Guangxi Enterprise Technology Center" (廣西企業技術中心) and "Guangxi Enterprise Research and Development Center" (廣西企業研發中心), and received the title of "Guangxi Collagen Extraction Technology Research Center (廣西膠原蛋白提取技術工程研究中心)" for the first time as approved by Guangxi Development and Reform Commission. As at 30 June 2019, the Group employed a total of ten high caliber talents, including five doctoral and post-doctoral research fellows, two professor level senior engineers and three graduates of master degrees. During the Period, Wuzhou Shenguan continued to actively develop various new casings to meet the continuously developing customer needs.

During the Period, the Group achieved outstanding results in new product research and development. For collagen food products, collagen rice noodles, bovine collagen and collagen solid and liquid drinks developed by the Group were put into trial production, some of which were already sold in the market. For collagen skincare products, the Group sped up the development of collagen skincare product series based on the market development trend. In particular, new products such as collagen serum product series, collagen mask essences, collagen extracts and collagen masks with "instrument" label achieved substantial progress in research and development, while certain new products are undergoing trial production. The mechanical equipment of the Group's R&D and production base in Singapore has also been basically installed.

For collagen medical materials, our new product, collagen-based bone repairing biomaterials (膠原基骨修復生物材料), is being tested for its product technical indicators. In addition, new products such as sterile low endotoxin medical collagen (低內毒素無菌醫療級膠原蛋白) and hydrophilic band-aids (親水性創口貼) are under research and development. Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") has filed to Guangdong provincial authorities with the corporate standards on Fibrous Type I Collagen (Q/SCSW2-2017), Medical Soluble Type I Collagen (Q/SCSW3-2017) and Collagen Wound Dressing (Q/SCSW4-2017). During the Period, Guangdong Victory has submitted an application of production permits for collagen wound dressing (type 3 medical devices) to the State Administration for Market Regulation of China, but it is still pending approval. In addition, Guangdong Victory is also lodging a number of applications for patents, of which the patents for "Artificial

Bone Structure" were granted by the National Intellectual Property Administration of the PRC and the Taiwan Intellectual Property Office and "Preparation Method of Low Endotoxin Collagen" was accepted by the National Intellectual Property Administration of the PRC, the Taiwan Intellectual Property Office and the United States Patent and Trademark Office.

Ferguson (Wuhan) Biotech Company Limited ("Ferguson Wuhan") is putting efforts in the research and development of three types of products, namely health food, general food and special food for medical purposes, of which, soybean isoflavone glucosamine sulfate chondroitin calcium soft capsule, the function of which is to increase bone density, has obtained new health food registration approval; soft capsules for pregnant women, new little Ferguson soft capsules and new calcium tablets for pregnant women have obtained the new health food filing approval; and the health food registration of methylated folic acid has entered the stage of material declaration and the first technical review. Ferguson Wuhan has made initial achievement in market channel building.

As at 30 June 2019, the Group had the following patents:

| | **Granted and still effective** | **Accepted and pending for approval** |
|---|---|---|
| National Intellectual Property Administration of the PRC | 69 | 20 |
| Taiwan Intellectual Property Office | 1 | 1 |
| United States Patent and Trademark Office | – | 1 |

## Collagen Sausage Casings

One of the Group's principal businesses is the manufacture and sale of edible collagen sausage casings, most of which are used for the production of western sausages. Product innovation and diversification by sausage manufacturers continued to create demand for sausage casings of different sizes and fillings.

In order to keep pace with the new trend of the domestic meat product industry, the Group launched new products that can be applied to more types of sausages fillings to cater for the market. These new products are gradually marketed and adopted. At the same time, the Group also made great efforts in enhancing internal management, increasing the level of automation, streamlining production processes and improving efficiency.

With respect to the supply of raw materials, cattle's inner skin is a major raw material for collagen sausage casing production. The supply of cattle's 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 substantial 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 and was granted with such licence, effective until November 2022, by the Wuzhou Bureau for Administrative Examination and Approval, the local issuing authority of the China Food and Drug Administration where Guangxi Zhiguan is located.

## Quality Control

The Group strictly controls each production step to ensure that its products are of the best quality and comply 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 U.S. Food and Drug Administration for export of sausage casing products to the United States. In addition, the production of all of 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 400 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-recognized testing reports, delivering external sales revenue. Such qualification 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 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 Period, the Group continued to supply high-quality sausage casing products to a number of renowned food suppliers in the PRC. The number of domestic customers remained stable.

## FINANCIAL ANALYSIS

### Revenue

Revenue slightly increased by approximately 2.8% to approximately RMB386.8 million for the Period from approximately RMB376.2 million for the six months ended 30 June 2018 (the "Prior Period"). In spite of the influence of African swine fever, the sales volume of collagen sausage casing for the Period recorded a slight increase as compared with the Prior Period.

## Cost of sales

Cost of sales increased by approximately 19.3% to approximately RMB284.3 million for the Period from approximately RMB238.3 million for the Prior Period, including the provision and write-off of inventory of approximately RMB15.5 million, as compared to the provision and write-off of approximately RMB10.3 million for the Prior Period. Excluding such items, the cost of sales for the Period increased by approximately 17.9% as compared to the Prior Period. One of the reasons for the increase in cost of sales was that since the fourth quarter of 2018, raw material prices have risen due to the continuous increase of environmental protection requirements in China. To minimize the impact, the Group has actively taken effective measures to control production costs. Since the second quarter of 2019, the Group continues to negotiate with raw material suppliers and as a result, raw material prices saw a certain extent of decrease. In addition, during the Period, as the Group continued to actively develop various new casings to meet the continuously developing customer needs, the trial production cost of casings also increased significantly. The costs of raw materials for the Period increased by approximately 34.1% to approximately RMB109.4 million as compared with that of the Prior Period. In addition, the charges for energy slightly increased by approximately 2.0% to approximately RMB55.0 million. The direct labor cost slightly increased by approximately 2.2% to approximately RMB43.5 million.

## Gross profit

Gross profit decreased by approximately 25.7% to approximately RMB102.5 million for the Period from approximately RMB137.9 million for the Prior Period. The gross profit margin decreased from approximately 36.7% to approximately 26.5% for the Period. The decrease in gross profit margin is mainly due to the increased production cost and trial production cost of casings.

## Other income and gains

Other income and gains increased by approximately 48.7% to approximately RMB21.9 million for the Period from approximately RMB14.7 million for the Prior Period, primarily attributable to the increase in bank interest income and gain on disposal of a right-of-use asset.

## Selling and distribution expenses

Selling and distribution expenses decreased by approximately 28.6% to approximately RMB14.2 million for the Period from approximately RMB19.9 million for the Prior Period. Selling and distribution expenses as a percentage of revenue decreased to approximately 3.7% for the Period from approximately 5.3% for the Prior Period. The decrease was mainly due to reduced expenses on sales exhibition and spokespersons.

## Administrative expenses

Administrative expenses decreased by approximately 11.7% to approximately RMB75.5 million for the Period from approximately RMB85.5 million for the Prior Period. During the Prior Period, the Group made impairment on some of the equipment in relatively obsolete condition and an impairment of approximately RMB5.2 million was recorded for equipment accordingly. No similar impairment was recorded during the Period.

For the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets are amortized over five years. The related amortization expense was approximately RMB25.4 million for the Period and the Prior Period. After deducting non-controlling interests and deferred tax of Guangdong Victory, the effect of the related amortization expense on the net profit of the Group was approximately RMB15.2 million. The factor above which had a relatively material impact on the net profit for the Period and the Prior Period were non-cash items and the cash flow of the Group was not affected.

## Finance costs

Finance costs decreased by approximately 86.3% to approximately RMB383,000 for the Period from approximately RMB2.8 million for the Prior Period. At the beginning of the year, the Group repaid a major portion of its RMB denominated loans but obtained another additional Hong Kong dollar denominated loan of HK$50.0 million in June this year. During the Period, for most of the time, the Group maintained a low borrowing level.

## Share of loss of an associate

The share of loss of an associate for the Period amounted to approximately RMB1.9 million, which was mainly due to the share of loss of Ferguson Wuhan during the Period.

### Income tax expenses

Income tax expenses were approximately RMB5.6 million for the Period, as compared to approximately RMB8.8 million for the Prior Period. The Company's major operating subsidiary, Wuzhou Shenguan enjoyed a preferential tax treatment because of its location in western China and its engagement in industries encouraged by government policies. The applicable tax rate for Wuzhou Shenguan was 15%.

The effective tax rates applied to the Group were approximately 21.2% and approximately 17.1% of profit before tax, respectively for the Prior Period and the Period.

### Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Period was approximately RMB4.5 million, mainly representing the amortization expense of technology intangible assets attributable to the non-controlling interests in Guangdong Victory.

### Profit attributable to owners of the Company

Due to the aforesaid reasons, profit attributable to owners of the Company decreased by approximately 15.7% to approximately RMB31.4 million for the Period from approximately RMB37.2 million for the Prior Period. The Group's selling and distribution expenses and administrative expenses for the exploration of new products, including facial masks and instant edible solid collagen, for the Period and the Prior Period totaled RMB8.0 million and RMB10.3 million, respectively.

## 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 2019, the cash and cash equivalents together with pledged and time deposits amounted to approximately RMB725.4 million, representing an increase of approximately RMB5.5 million from the end of 2018. Among these balances, approximately 93.5% was denominated in Renminbi, and the remaining 6.5% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 30 June 2019, the total bank borrowings of the Group amounted to approximately RMB88.0 million, representing an increase of approximately RMB5.3 million (as at 31 December 2018: approximately RMB82.7 million), and all the bank borrowings were wholly repayable within one year and were denominated in Hong Kong dollars.

The Group was in a net cash position (cash and cash equivalents together with pledged and time deposits less total bank borrowings) of approximately RMB637.4 million as at 30 June 2019, representing an increase of approximately RMB0.2 million as compared to that at the end of 2018. The debt-to-equity ratio was 3.2% as at 30 June 2019 (as at 31 December 2018: 2.9%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

## Cash flows

During the Period, the net cash inflow of approximately RMB104.7 million and approximately RMB144.6 million were generated from operating activities and investing activities, respectively, while financing activities utilized approximately RMB100 million. The net cash inflow from investing activities was mainly attributable to the cash inflow from the decrease in non-pledged time deposits with original maturity of over three months, which was partially offset by the cash outflow from increase in pledged deposits. The net cash outflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowings and the new bank borrowings and the payment of 2018 final dividend.

## 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.

## Capital expenditure

The capital expenditure of the Group during the Period amounted to approximately RMB14.2 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 30 June 2019 amounted to approximately RMB112.1 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2019 amounted to approximately RMB80.0 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business, as well as expansion of production facilities of the new businesses in progress, and the renovation and addition of equipment for the research and development center in Singapore.

### Pledge of assets

As at 30 June 2019, pledged bank deposits amounted to approximately RMB95.0 million in total.

### Contingent liabilities

As at 30 June 2019 and up to the date of this report, the Group was not aware of any material contingent liabilities.

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

During the Period, Wuzhou Shenguan, a wholly-owned subsidiary of the Group, absorbed and merged its wholly-owned subsidiary Wuzhou Shensheng Collagen Products Co., Ltd. ("Shensheng Collagen") according to the Provisions on Merger and Division of Foreign-invested Enterprises (《外商投資企業合併與分立規定》) promulgated by the Ministry of Commerce of the PRC and completed relevant procedures on 30 May 2019. After the completion, Wuzhou Shenguan absorbed and merged all the assets and liabilities of Shensheng Collagen which cancelled its enterprise registration.

## EVENTS AFTER THE PERIOD

There were no important events affecting the Group that have occurred since 30 June 2019.

## HUMAN RESOURCES

As at 30 June 2019, the Group hired a total of approximately 2,500 contract employees (as at 30 June 2018: 2,600). During the Period, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB81.2 million (first half of 2018: approximately RMB76.6 million). In order to attract and retain high quality talents to ensure smooth business operation and to cope with the need of the Group's continuing expansion, the Group offers competitive remuneration packages with reference to the market conditions as well as individual qualifications and experience.

## PROSPECTS AND STRATEGIES

The China economy steadily gained traction this year with increased economic downward pressure. In particular, against the backdrop of trade friction between the PRC and the United States, the external severe environment together with the inadequate and imbalanced development facing China's economy make it more difficult to have stabilized growth and risk prevention. Looking ahead into the second half of 2019, in spite of the pressure on economic growth slowdown, it will remain stable as a whole, and annual growth rate will maintain within the target range. In the 2019 Central Economic Work Conference, it was suggested that the PRC will coordinate the implementation of the strategic layout of "Four Comprehensive", uphold the underlying principle of pursuing progress while ensuring stability, facilitate the work of maintaining stable growth, promoting reforms and opening up, adjusting economic structure, benefiting the people and preventing risks, and maintain a rational economic operation. At the same time, under the environment of fluctuating global meat product industry as affected by the overall situation and increasingly fierce market competition, the Group's production and operation will be ridden with both opportunities and challenges. It is critical for the Group to create and seize opportunities in the second half of the year.

The Group will accelerate the implementation of product diversification strategies and put efforts in the research and development of new collagen-based food products, healthcare products, cosmetics, medicine and medical materials. The Group will utilize automation and intellectualization as a means to achieve product diversification and extend its reach to the great health industry and the strategic emerging industries, so as to build itself into a world-class base for collagen research and development and application as well as a major supplier of collagen raw materials. In recent years, the great health industry has been booming. According to relevant national planning, the market size of the great health industry brought by "Healthy China" will exceed RMB16 trillion by 2030, which will be three times of current market size. With industrial restructuring becoming the mainstream trend, China will encourage the development of the great health industry, and the possibility of introducing favorable policies will continue. As an emerging strategic industry, the collagen biotechnology industry will be affected by the concept of "great health" industry and becomes a new growth point of the Group.

In the first half of the year, industry competition remained fierce, the meat food industry ushered in structural adjustment with increased prosperity overall. The Group will continue to place "principal business consolidation and new product launch" as its work priorities for 2019. While enhancing product quality, the Group will vigorously develop its principal business and seek overseas cooperation opportunities. The Group will endeavor to stabilize and enhance product quality as well as to solidify its foothold in the collagen sausage casing market; take automation and intellectualization as the elements to improve the level of equipment, enhance production efficiency and reduce cost effectively; accelerate the research and development of new products and enter the market with high-quality new varieties, so as to further consolidate its market share and enhance the strength of the Group. At the same time, the Group will strengthen team building, actively promote staff performance assessment and incentive mechanism, and align the personal interests of employees with the interests and goals of the Group to motivate their work enthusiasm. The Group will also strengthen internal training and management to improve the quality and capabilities of its staff and to achieve high standards of management and work efficiency.

The Group will continue to promote the research and development of the collagen skincare product, improve product varieties and promote the formation of products scale, and spare no effort in product sales planning to ensure that they are catered for the needs of contemporary society. For collagen food products, the Group will continue to improve new products such as instant edible solid collagen and collagen rice noodles and drinks with reference to the sales data of new products that are already in the market, with a view to launching products with better quality and more favored by the market. The Group will be fully engaged in marketing activities in respect of e-commerce, micro commerce and agent sales to ensure comprehensive product promotion. The Group will continue to be active in the research and development of its collagen medical materials and is expected to apply for clinical trial for the new product of collagen-based bone repairing biomaterials (膠原基骨修復生物材料) during the year. The Group will relocate Guangdong Victory as soon as possible and endeavor to enhance the sales of medical collagen raw materials and semi-finished materials.

The Group believes that the aforesaid initiatives will further improve its performance and operation, drive the development of collagen biotechnology and get closer to the great health industry, so as to secure its leading position in the industry and generate fabulous returns to the shareholders of the Group in the long run.

## SHARE OPTION SCHEME

There is no share option outstanding, granted, cancelled and lapsed under the share option scheme of the Company during the six months ended 30 June 2019.

## 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

During the Period, the Company purchased certain of its shares on the Stock Exchange and certain of these shares were subsequently cancelled by the Company. The summary details of those repurchases during the Period are as follows:

| Month | Number of shares repurchased | Number of shares cancelled | Price per share Highest HK$ | Price per share Lowest HK$ | Total price paid HK$ |
|---|---|---|---|---|---|
| January 2019 | 3,018,000 | 4,098,000 | 0.4600 | 0.4350 | 1,364,840 |

The 1,080,000 shares repurchased in December 2018 were cancelled in January 2019. As at 30 June 2019, the Company had no shares repurchased but not yet cancelled.

The purchase of the Company's shares during the Period was effected by the directors of the Company (the "Directors"), pursuant to the mandate from shareholders received at the last annual general meeting held in May 2018, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

## UPDATE ON DIRECTOR AND SENIOR MANAGEMENT INFORMATION

Changes in the information of Directors and senior management of the Company since the disclosure made in the 2018 annual report of the Company, that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Mr. Tsui Yung Kwok (being an independent non-executive Director) has retired as an independent non-executive director of 361 Degrees International Limited, a listed company in Hong Kong (stock code: 1361), on 20 May 2019.

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, interests and short positions in the shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) held by the Directors and chief executives of the Company which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are taken or deemed to have under such provisions of the SFO), or which have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules are as follows:

### 1. Interests and Short Positions in the Shares of the Company (the "Shares")

| Name of Directors | Capacity/Nature of interests | Number of Shares | Approximate percentage of issued share capital of the Company |
|---|---|---|---|
| Ms. Zhou Yaxian ("Ms. Zhou") | Interest of controlled corporation (Note 2) | 2,241,006,000 (L) | 69.37% |
| | Beneficial owner | 200,000 (L) | 0.01% |
| Dato' Sri Low Jee Keong ("Dato' Sri Low") | Interest of controlled corporation (Note 3) | 78,936,000 (L) | 2.44% |
| Mr. Shi Guicheng | Beneficial owner | 800,000 (L) | 0.02% |
| Mr. Ru Xiquan | Beneficial owner | 800,000 (L) | 0.02% |
| Mr. Mo Yunxi | Beneficial owner | 800,000 (L) | 0.02% |

## 2. Long Positions in the Ordinary Shares of Associated Corporations

| Name of Directors | Name of the associated corporation | Capacity/Nature of interests | Number of Shares held | Approximate percentage of interest in the associated corporation |
|---|---|---|---|---|
| Ms. Zhou | Rich Top Future Limited ("Rich Top Future") | Interest of controlled corporation (Note 2) | 65,454 | 65.45% |
| Dato' Sri Low | Rich Top Future | Interest of controlled corporation (Note 3) | 20,835 | 20.84% |

Notes:

1. The letters "L" denote a long position in the Shares or underlying Shares.

2. Ms. Zhou holds 100% interest in Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan") which holds 100% interest in Glories Site Limited ("Glories Site"), which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng Limited ("Xian Sheng"). Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Hong Kong Shenguan, Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou is a director of each of Hong Kong Shenguan, Glories Site, Xian Sheng and Rich Top Future.

3. Dato' Sri Low holds 100% interest in Wealthy Safe Management Limited ("Wealthy Safe"), which holds 78,936,000 Shares. Therefore, Dato' Sri Low is deemed or taken to be, interested in all the Shares owned by Wealthy Safe for the purpose of the SFO. Dato' Sri Low holds 100% interest in Brighten Lane Limited, which holds approximately 20.84% interest in Rich Top Future.

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2019, as far as is known to the Directors, the following persons (not being the Directors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

### Interests and Short Positions in the Shares and Underlying Shares

| Name of Shareholders | Capacity/Nature | Number of Shares | Approximate percentage of issued share capital of the Company |
|---|---|---|---|
| Rich Top Future | Beneficial owner | 1,936,434,000 (L) | 59.94% |
| Xian Sheng | Beneficial owner | 248,724,000 (L) | 7.70% |
| Glories Site | Interest of controlled corporation (Note 2) | 1,936,434,000 (L) | 59.94% |
| Hong Kong Shenguan | Interest of controlled corporation (Note 3) | 2,185,158,000 (L) | 67.64% |
| | Beneficial owner | 55,848,000 (L) | 1.73% |
| Mr. Sha Shuming ("Mr. Sha") | Interest of spouse (Note 4) | 2,241,206,000 (L) | 69.38% |

Notes:

1. The letters "L" denote a long position in the Shares.

2. Glories Site holds approximately 65.45% interest in Rich Top Future. Therefore, Glories Site is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future for the purpose of the SFO.

3. Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Hong Kong Shenguan is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO.

4. Ms. Zhou holds 100% interest in Hong Kong Shenguan which holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Hong Kong Shenguan, Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou beneficially owns 200,000 Shares. Mr. Sha is the spouse of Ms. Zhou and therefore, Mr. Sha is deemed or taken to be, interested in all the Shares in which Ms. Zhou is interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any persons (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

## CORPORATE GOVERNANCE CODE

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

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

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

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

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

## MODEL CODE TO THE LISTING RULES

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

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

## AUDIT COMMITTEE

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

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

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

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

Hong Kong, 19 August 2019

EY 安永

**To the board of directors of Shenguan Holdings (Group) Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 26 to 54, which comprises the condensed consolidated statement of financial position of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries as at 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**To the board of directors of Shenguan Holdings (Group) Limited (Continued)**
*(Incorporated in the Cayman Islands with limited liability)*

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Ernst & Young**
*Certified Public Accountants*
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 August 2019

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | **(Unaudited)** | (Unaudited) |
| | Notes | **RMB'000** | RMB'000 |
| **REVENUE** | 4 | **386,764** | 376,194 |
| Cost of sales | | **(284,310)** | (238,270) |
| Gross profit | | **102,454** | 137,924 |
| Other income and gains, net | 5 | **21,920** | 14,745 |
| Selling and distribution expenses | | **(14,223)** | (19,924) |
| Administrative expenses | | **(75,466)** | (85,461) |
| Finance costs | 6 | **(383)** | (2,805) |
| Share of loss of an associate | | **(1,854)** | (2,957) |
| **PROFIT BEFORE TAX** | 7 | **32,448** | 41,522 |
| Income tax expense | 8 | **(5,563)** | (8,800) |
| **PROFIT FOR THE PERIOD** | | **26,885** | 32,722 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Other comprehensive income that may be reclassified to profit or loss in subsequent periods:* | | | |
| Exchange differences on translation of foreign operations | | **2,212** | (545) |
| **NET OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | | **2,212** | (545) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **29,097** | 32,177 |

| | Note | Six months ended 30 June 2019 (Unaudited) RMB'000 | 2018 (Unaudited) RMB'000 |
|---|---|---|---|
| Profit attributable to: | | | |
| Owners of the Company | | **31,394** | 37,248 |
| Non-controlling interests | | **(4,509)** | (4,526) |
| | | **26,885** | 32,722 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **33,606** | 36,703 |
| Non-controlling interests | | **(4,509)** | (4,526) |
| | | **29,097** | 32,177 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 10 | | |
| Basic and diluted (RMB cents per share) | | **0.97** | 1.14 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

| | Notes | 30 June 2019 (Unaudited) RMB'000 | 31 December 2018 (Audited) RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **1,162,246** | 1,194,793 |
| Investment properties | | **7,799** | 7,799 |
| Right-of-use assets | | **118,169** | – |
| Prepaid land lease payments | | **–** | 122,010 |
| Other intangible assets | | **61,957** | 87,809 |
| Investment in an associate | | **45,534** | 47,389 |
| Deferred tax assets | | **22,430** | 27,139 |
| Long term prepayments and other receivables | | **12,270** | 10,064 |
| Pledged deposit | 17 | **50,000** | – |
| Time deposits | | **130,000** | 130,000 |
| Total non-current assets | | **1,610,405** | 1,627,003 |
| **CURRENT ASSETS** | | | |
| Inventories | | **612,273** | 606,784 |
| Trade and bills receivables | 12 | **185,813** | 236,588 |
| Prepayments, other receivables and other assets | | **58,462** | 57,407 |
| Pledged deposits | 17 | **45,000** | 85,000 |
| Cash and cash equivalents | | **500,358** | 504,884 |
| Total current assets | | **1,401,906** | 1,490,663 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 13 | **42,818** | 54,720 |
| Other payables and accruals | | **70,401** | 85,216 |
| Interest-bearing bank and other borrowings | | **89,035** | 82,671 |
| Tax payable | | **7,451** | 14,292 |
| Total current liabilities | | **209,705** | 236,899 |
| **NET CURRENT ASSETS** | | **1,192,201** | 1,253,764 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,802,606** | 2,880,767 |

| | Note | 30 June 2019 (Unaudited) RMB'000 | 31 December 2018 (Audited) RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing other borrowings | | **842** | – |
| Deferred income | | **33,304** | 31,136 |
| Deferred tax liabilities | | **28,847** | 35,365 |
| Total non-current liabilities | | **62,993** | 66,501 |
| Net assets | | **2,739,613** | 2,814,266 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 14 | **27,807** | 27,842 |
| Reserves | | **2,703,629** | 2,773,738 |
| | | **2,731,436** | 2,801,580 |
| Non-controlling interests | | **8,177** | 12,686 |
| Total equity | | **2,739,613** | 2,814,266 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2019

| | | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital (Unaudited) RMB'000 | Share premium account (Unaudited) RMB'000 | Treasury shares (Unaudited) RMB'000 | Contributed surplus (Unaudited) RMB'000 | Reserve funds (Unaudited) RMB'000 | Capital reserve (Unaudited) RMB'000 | Exchange fluctuation reserve (Unaudited) RMB'000 | Other reserves (Unaudited) RMB'000 | Retained profits (Unaudited) RMB'000 | Total (Unaudited) RMB'000 | Non-controlling interests (Unaudited) RMB'000 | Total equity (Unaudited) RMB'000 |
| At 1 January 2018 (Audited) | | 28,060 | 306,791 | – | 59 | 369,723 | 23,502 | (105,338) | (264,343) | 2,468,966 | 2,827,420 | 20,999 | 2,848,419 |
| Profit for the period | | – | – | – | – | – | – | – | – | 37,248 | 37,248 | (4,526) | 32,722 |
| Other comprehensive income for the period: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | (545) | – | – | (545) | – | (545) |
| Total comprehensive income for the period | | – | – | – | – | – | – | (545) | – | 37,248 | 36,703 | (4,526) | 32,177 |
| Capital contribution to a subsidiary | | – | – | – | – | – | – | – | – | – | – | 762 | 762 |
| Final 2017 dividend and special dividend | 9 | – | (95,719) | – | – | – | – | – | – | – | (95,719) | – | (95,719) |
| Transfer from retained profits | | – | – | – | – | 3,428 | – | – | – | (3,428) | – | – | – |
| At 30 June 2018 (Unaudited) | | 28,060 | 211,072 | – | 59 | 373,151 | 23,502 | (105,883) | (264,343) | 2,502,786 | 2,768,404 | 17,235 | 2,785,639 |

| | Notes | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital (Unaudited) RMB'000 | Share premium account (Unaudited) RMB'000 | Treasury shares (Unaudited) RMB'000 | Contributed surplus (Unaudited) RMB'000 | Reserve funds (Unaudited) RMB'000 | Capital reserve (Unaudited) RMB'000 | Exchange fluctuation reserve (Unaudited) RMB'000 | Other reserves (Unaudited) RMB'000 | Retained profits (Unaudited) RMB'000 | Total (Unaudited) RMB'000 | Non-controlling interests (Unaudited) RMB'000 | Total equity (Unaudited) RMB'000 |
| At 1 January 2019 (Audited) | | 27,842 | 202,204* | (408)* | 59* | 373,151* | 23,502* | (106,224)* | (264,343)* | 2,545,797* | 2,801,580 | 12,686 | 2,814,266 |
| Profit for the period | | - | - | - | - | - | - | - | - | 31,394 | 31,394 | (4,509) | 26,885 |
| Other comprehensive income for the period: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | 2,212 | - | - | 2,212 | - | 2,212 |
| Total comprehensive income for the period | | - | - | - | - | - | - | 2,212 | - | 31,394 | 33,606 | (4,509) | 29,097 |
| Shares repurchase | | - | - | (1,196) | - | - | - | - | - | - | (1,196) | - | (1,196) |
| Cancellation of shares repurchased | 14 | (35) | (1,569) | 1,604 | - | - | - | - | - | - | - | - | - |
| Final 2018 dividend and special dividend | 9 | - | (102,554) | - | - | - | - | - | - | - | (102,554) | - | (102,554) |
| At 30 June 2019 (Unaudited) | | 27,807 | 98,081* | -* | 59* | 373,151* | 23,502* | (104,012)* | (264,343)* | 2,577,191* | 2,731,436 | 8,177 | 2,739,613 |

* These reserve accounts comprise the consolidated reserves of RMB2,703,629,000 (31 December 2018: RMB2,773,738,000) in the condensed consolidated statement of financial position.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Six months ended 30 June 2019 (Unaudited) RMB'000 | 2018 (Unaudited) RMB'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash generated from operations | **109,611** | 98,610 |
| Interest received | **9,266** | 27,924 |
| PRC corporate income tax paid | **(14,213)** | (11,316) |
| Net cash flows from operating activities | **104,664** | 115,218 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of items of property, plant and equipment | **(11,774)** | (10,178) |
| Proceeds from disposal of right-of-use assets | **11,183** | – |
| Net changes to financial assets at fair value through profit or loss | **1,268** | 4,881 |
| (Increase)/decrease in pledged deposits | **(10,000)** | 109,300 |
| Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired | **153,883** | (152,883) |
| Net cash flows from/(used in) in investing activities | **144,560** | (48,880) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| New bank and other borrowings | **86,458** | 10,000 |
| Repayment of bank and other borrowings | **(82,105)** | (120,000) |
| Dividends paid | **(102,554)** | (95,719) |
| Principal portion of lease payments | **(229)** | – |
| Shares repurchase | **(1,195)** | – |
| Other cash flows used in financing activities | **(383)** | (2,077) |
| Net cash flows used in financing activities | **(100,008)** | (207,796) |

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **149,216** | (141,458) |
| Cash and cash equivalents at beginning of period | **232,001** | 376,902 |
| Effect of foreign exchange rate changes, net | **141** | 467 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **381,358** | 235,911 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **154,358** | 135,042 |
| Non-pledged time deposits with original maturity of less than three months when acquired | **227,000** | 90,869 |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | **381,358** | 225,911 |
| Non-pledged time deposits with original maturity of over three months when acquired | **249,000** | 242,883 |
| Less: Non-pledged time deposits with original maturity of over one year when acquired | **(130,000)** | (100,000) |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | **500,358** | 368,794 |

## 1. CORPORATE INFORMATION

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The unaudited condensed interim financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The accounting policies adopted in the preparation of the unaudited condensed interim financial information are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, except for the adoption of the following new and revised HKFRSs effective as of 1 January 2019:

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2015–2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of this unaudited condensed interim financial information. The nature and impact of the new and revised HKFRSs are described below:

### (a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (a) Adoption of HKFRS 16 (Continued)

*New definition of a lease*

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (a) Adoption of HKFRS 16 (Continued)

*As a lessee – Leases previously classified as operating leases*

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (US$5,000); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under prepaid land lease payments and prepayment, other receivables and other assets of RMB122,010,000 and RMB3,203,000 respectively.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (a) Adoption of HKFRS 16 (Continued)

*As a lessee – Leases previously classified as operating leases (Continued)*

Impacts on transition (Continued)

For the commercial properties (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics

- Relied on its assessment of whether leases are onerous immediately before the date of initial application

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (a) Adoption of HKFRS 16 (Continued)

*As a lessee – Leases previously classified as operating leases (Continued)*

Impacts on transition (Continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

| | Increase/ (decrease) RMB'000 (Unaudited) |
|---|---|
| **Assets** | |
| Right-of-use assets | 125,468 |
| Prepaid land lease payments | (122,010) |
| Prepayments, other receivables and other assets | (3,203) |
| Total assets | 255 |
| **Liability** | |
| Interest-bearing bank and other borrowings | 255 |
| Total liability | 255 |

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (a) Adoption of HKFRS 16 (Continued)

*As a lessee – Leases previously classified as operating leases (Continued)*

Impacts on transition (Continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

| | RMB'000<br>(Unaudited) |
|---|---|
| **Operating lease commitments as at 31 December 2018** | 1,876 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 5.46% |
| Discounted operating lease commitments as at 1 January 2019 | 1,861 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 | (1,606) |
| **Lease liabilities as at 1 January 2019** | 255 |

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (a) Adoption of HKFRS 16 (Continued)

*Summary of new accounting policies*

The accounting policy for leases as disclosed in the annual consolidated financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (a) Adoption of HKFRS 16 (Continued)

*Summary of new accounting policies (Continued)*

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### (b) Adoption of Amendments to HKAS 28

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group does not have any long-term interests in associates upon adoption of the amendments on 1 January 2019 and accordingly, the amendments did not have any impact on the Group's condensed consolidated financial information.

### (c) Adoption of HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the Group's condensed consolidated financial information.

## 3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of manufacture and sale of edible collagen sausage casing products. The Group also involves 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 is not presented since over 90% of the Group's revenue is derived from external customers based in the PRC and over 90% of the Group's non-current assets are located in the PRC. Accordingly, in the opinion of directors of the Company, the presentation of geographical information would provide no additional useful information to the users of this unaudited condensed interim financial information.

## 4. REVENUE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| **Revenue from contracts with customers** | | |
| Goods transferred at point in time | **386,699** | 376,082 |
| Service transferred over time | **65** | 112 |
| | **386,764** | 376,194 |

## 5. OTHER INCOME AND GAINS, NET

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Bank interest income | **12,194** | 4,872 |
| Foreign exchange gain, net | **392** | – |
| Net changes to financial assets at fair value through profit or loss | **1,268** | 4,881 |
| Gain on disposal of right-of-use assets | **3,841** | – |
| Government grants* | **2,622** | 4,320 |
| Sales of dried meat products | **312** | 329 |
| Others | **1,291** | 343 |
| | **21,920** | 14,745 |

* Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land leases, and plant and equipment. The government grants received relating to assets were recognised as deferred income when conditions of these government grants were fulfilled, and released to other income over the expected useful lives of the relevant assets. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2019 (2018: Nil).

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Interest on bank and other loans | **370** | 2,805 |
| Interest portion of lease payments | **13** | – |
| | **383** | 2,805 |

## 7. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Depreciation of property, plant and equipment | **47,158** | 47,883 |
| Amortisation of prepaid land lease payments | **–** | 1,623 |
| Depreciation of right-of-use assets | **1,843** | – |
| Amortisation of other intangible assets | **25,852** | 25,852 |
| Reversal of impairment of trade receivables | **(1,539)** | (728) |
| Loss on disposal of items of property, plant and equipment | **1,018** | 5,515 |
| Write-off of inventories | **1,371** | 3,629 |
| Provision against obsolete and slow-moving inventories | **14,095** | 6,629 |
| Foreign exchange differences, net | **(392)** | 531 |

## 8. INCOME TAX EXPENSE

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

The provision for the People's Republic of China ("PRC") income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC.

Wuzhou Shenguan Protein Casing Co., Ltd, being the Company's wholly-owned subsidiary, is located in Wuzhou, Guangxi in the Western Region of China and is subject to the region's preferential corporate income tax rate of 15% as set out in Notice of the Ministry of Finance, the General Administration of Custom and the State Administration of Taxation on Tax Policy Issues Concerning Further Implementing the Western China Development Strategy (Cai Shui [2011] No. 58).

| | **Six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Current tax charge for the period | | |
| – PRC | **6,836** | 13,093 |
| – Hong Kong | **537** | 401 |
| Deferred tax | **(1,810)** | (4,694) |
| Total tax charge for the period | **5,563** | 8,800 |

## 9. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Final dividend declared and paid for 2018 – HK2.0 cents (2017: HK2.0 cents) per ordinary share | **56,974** | 53,177 |
| Special dividend declared and paid for 2018 – HK1.6 cents (2017: HK1.6 cents) per ordinary share | **45,580** | 42,542 |
| | **102,554** | 95,719 |

The directors of the Company did not propose any interim dividend in respect of the reporting period (2018: Nil).

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2019 is based on the profit for the period attributable to owners of the Company of RMB31,394,000 (2018: RMB37,248,000) and the weighted average number of ordinary shares of 3,231,046,000 (2018: 3,259,276,000) in issue during the period ended 30 June 2019.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2019 (2018: Nil).

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group incurred RMB14,199,000 (2018: RMB10,375,000) on the acquisition of items of property, plant and equipment and disposed of items of property, plant and equipment with an aggregate net book value of RMB1,018,000 (2018: RMB5,515,000).

## 12. 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 2019 (Unaudited) RMB'000** | 31 December 2018 (Audited) RMB'000 |
|---|---|---|
| Within 3 months | **128,848** | 180,033 |
| 3 to 4 months | **29,100** | 34,388 |
| Over 4 months | **27,865** | 22,167 |
| | **185,813** | 236,588 |

## 13. 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 2019 (Unaudited) RMB'000** | 31 December 2018 (Audited) RMB'000 |
|---|---|---|
| Within 1 month | **24,313** | 26,579 |
| 1 to 2 months | **3,151** | 4,821 |
| 2 to 3 months | **3,293** | 5,571 |
| Over 3 months | **12,061** | 17,749 |
| | **42,818** | 54,720 |

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

## 14. SHARE CAPITAL

### Shares

| | 30 June 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'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 2018: 3,234,578,000) ordinary shares of HK$0.01 each | **32,305** | 32,346 |
| | **RMB'000** | RMB'000 |
| Equivalent to | **27,807** | 27,842 |

During the period ended 30 June 2019, the Company repurchased its own ordinary shares of 3,018,000 on the Stock Exchange at an aggregate consideration of HK$1,370,000 (equivalent to RMB1,196,000). Together with the 1,080,000 repurchased shares which were held as treasury shares as at 31 December 2018, 4,098,000 ordinary shares were cancelled by the Company as at 30 June 2019. Upon the cancellation of the 4,098,000 shares repurchased, the issued share capital of the Company was reduced by the par value of HK$40,980 (equivalent to RMB35,000) and the premium paid on the repurchase of these cancelled shares of HK$1,812,000 (equivalent to RMB1,569,000), including transaction costs, was deducted from share premium of the Company.

## 15. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | 30 June 2019 (Unaudited) RMB'000 | 31 December 2018 (Audited) RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Buildings | **103,841** | 104,925 |
| Plant and machinery | **8,277** | 7,510 |
| | **112,118** | 112,435 |

## 16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2018: Nil).

## 17. PLEDGE OF ASSETS

At the end of the reporting period, cash in bank (including time deposits) of RMB95,000,000 (31 December 2018: RMB45,000,000) was pledged to secure bank borrowings amounting to RMB87,966,000 (31 December 2018: RMB42,671,000). As at 31 December 2018, cash in bank of RMB40,000,000 was pledged to secure the discounted bills amounting to RMB40,000,000.

## 18. RELATED PARTY DISCLOSURES

**(a)** In addition to those transactions detailed elsewhere in the interim financial information, the Group had the following material transactions with related parties during the period:

| | Notes | Six months ended 30 June 2019 (Unaudited) RMB'000 | 2018 (Unaudited) RMB'000 |
|---|---|---|---|
| Company controlled by a director of the Company: | | | |
| Continuing connected transactions: | | | |
| Sales of products | (i) | **815** | 1,924 |
| Purchases of cattle hides | (ii) | **59,965** | 37,281 |
| Rent of production premises | (ii) | **1,187** | 1,129 |
| Administrative support and liaising services | (ii) | **100** | 72 |
| Companies controlled by spouse of a director of the Company: | | | |
| Continuing connected transactions: | | | |
| Purchases of packing materials | (ii) | **13,522** | 15,139 |

Notes:

(i) The sales were made according to the prices and conditions offered to major customers of the Group.

(ii) These transactions were based on terms mutually agreed between the parties.

## 18. RELATED PARTY DISCLOSURES (Continued)

### (b) Balance with a related party

As at 31 December 2018, included in "Trade and bills receivables" represented an amount of RMB792,000 due from LJK Frozen SDN. BHD ("LJK"), which is controlled by Dato' Sri Low Jee Keong, a director of the Company. The amount due from LJK was unsecured, non-interest-bearing and had a repayment term of 45 days, which was on terms similar to those offered to other major customers of the Group.

As at 30 June 2019, trade payables amounting to RMB8,021,000 (31 December 2018: RMB12,864,000) are payable to Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan") for the purpose of purchasing cattle hides. Guangxi Zhiguan is controlled by Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, directors of the Company. The trade payables are settled on terms no longer than 180 days.

**(c)** Compensation of key management personnel of the Group:

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **2,889** | 2,887 |
| Retirement benefit contributions | **24** | 18 |
| Total compensation paid/payable to key management personnel | **2,913** | 2,905 |

## 19. FAIR VALUE MEASUREMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group did not have any financial assets and financial liabilities measured at fair value as at 30 June 2019 and 31 December 2018.

## 20. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 19 August 2019.