



Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 00829



2023
Interim Report

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Zhou Yaxian (*Chairman and President*)

Mr. Shi Guicheng

(*retired on 31 May 2023*)

Mr. Ru Xiquan

Mr. Mo Yunxi

Mr. Sha Junqi

(*appointed on 31 May 2023*)

Mr. Li Chenglin

(*appointed on 31 May 2023*)

NON-EXECUTIVE DIRECTOR

Dato' Sri Low Jee Keong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsui Yung Kwok

Mr. Meng Qinguo

Mr. Yang Xiaohu

(*retired on 31 May 2023*)

Mr. Zhou Xiaoxiong

(*appointed on 31 May 2023*)

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

HEADQUARTER

Unit 2902, Sino Plaza

255–257 Gloucester Road

Causeway Bay

Hong Kong

MAINLAND OFFICE

39, 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

Registered Public Interest Entity Auditor

27/F One Taikoo Place

979 King's Road

Quarry Bay

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

22 August 2023
Announcement of 2023 Interim Results

REGISTRAR & TRANSFER OFFICES

Principal:

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586, Gardenia Court
Camana Bay, Grand Cayman
KY1-1100, Cayman Islands

Hong Kong Branch:

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

SHARE INFORMATION

Board lot size: 2,000 shares

Shares in issue as at 30 June 2023
3,230,480,000 shares

Market capitalization as at 30 June 2023
HK\$936,839,200

Basic earnings per share for 2023
Half year RMB0.04 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		
	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.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the six months ended 30 June 2023 (the “Period”), 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, Shenguan Holdings (Group) Limited (the “Company”) and its subsidiaries (collectively, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 (the “Board”) of directors (the “Directors”) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report 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 report. 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.

OTHER INFORMATION

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 2023, interests and 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 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

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)	2,257,628,000 (L)	69.89%
	Beneficial owner	3,144,000 (L)	0.10%
Dato' Sri Low Jee Keong ("Dato' Sri Low")	Interest of controlled corporation (Note 3)	78,936,000 (L)	2.44%
Mr. Ru Xiquan	Beneficial owner	800,000 (L)	0.02%
Mr. Mo Yunxi	Beneficial owner	800,000 (L)	0.02%
Mr. Sha Junqi	Beneficial owner	18,220,000 (L)	0.56%
Mr. Li Chenglin	Beneficial owner	166,000 (L)	0.01%

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 2023, 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.

OTHER INFORMATION

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

As at 30 June 2023, 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 or 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	72,470,000 (L)	2.24%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse (Note 4)	2,260,772,000 (L)	69.98%

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 3,144,000 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 2023, 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.

UPDATED INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

The changes in the information of the Directors, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

- i. Mr. Shi Guicheng and Mr. Yang Xiaohu retired as Directors at the conclusion of the annual general meeting held on 31 May 2023 pursuant to the Articles of Association of the Company. Mr. Yang Xiaohu also ceased to be a member of each of the audit committee, the remuneration committee and the nomination committee of the Company, with effect from the conclusion of the annual general meeting held on 31 May 2023.
- ii. On 31 May 2023, the appointment of (a) each of Mr. Sha Junqi (“Mr. Sha”) and Mr. Li Chenglin (“Mr. Li”) as an executive Director; and (b) Mr. Zhou Xiaoxiong (“Mr. Zhou”) as an independent non-executive Director were duly approved by the Shareholders at the annual general meeting held on 31 May 2023. The term of office of each of Mr. Sha, Mr. Li and Mr. Zhou shall commence from 31 May 2023. Mr. Zhou was also appointed as a member of each of the audit committee, the remuneration committee and the nomination committee of the Company.

OTHER INFORMATION

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 of the Board (the “Audit Committee”) comprises of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Zhou Xiaoxiong. Mr. Tsui Yung Kwok, who possesses professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated interim results of the Group for the Period and considered that the interim results had complied with all applicable accounting standards and the Listing Rules. The Audit Committee has also reviewed this 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, 22 August 2023

INDEPENDENT REVIEW REPORT



Ernst & Young
27/F, One Taikoo Place
979 King's Road,
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話：+852 2846 9888
Fax 傳真：+852 2868 4432
ey.com

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 28 to 52, which comprises the condensed consolidated statement of financial position of Shenguan Holdings (Group) Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2023 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 months 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.

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

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.

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
Hong Kong

22 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 (Unaudited) RMB'000	2022 (Unaudited) 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
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		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

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Note	RMB'000	RMB'000
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	11	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	17	–	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	12	173,139	206,975
Prepayments, other receivables and other assets		55,927	53,850
Derivative financial instruments	19	–	3,100
Tax recoverable		1,059	1,431
Pledged deposits	17	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	13	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
		24,332	29,243
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	14	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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company												
	Note	Issued capital	Share premium account	Contributed surplus	Reserve funds	Capital reserve	Exchange fluctuation	Other reserves	Property revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2022 (audited)		27,807	98,081	59	373,151	23,502	(99,238)	(264,343)	2,943	2,496,282	2,653,224	(2,636)	2,655,588
Profit/(loss) for the period		-	-	-	-	-	-	-	-	13,535	13,535	(1,351)	12,184
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations		-	-	-	-	2,805	-	-	-	-	2,805	-	2,805
Total comprehensive income/(loss) for the period		-	-	-	-	2,805	-	-	-	13,535	16,340	(1,351)	14,989
Final 2021 dividend and special dividend	9	-	-	-	-	-	-	-	-	(165,760)	(165,760)	-	(165,760)
At 30 June 2022 (unaudited)		27,807	98,081	59	373,151	23,502	(96,433)	(264,343)	2,943	2,344,057	2,508,804	(3,987)	2,504,817
At 1 January 2023 (audited)		27,807	98,081	59	373,151	23,502	(91,114)	(264,343)	2,943	2,354,087	2,524,173	(4,731)	2,519,442
Profit/(loss) for the period		-	-	-	-	-	-	-	-	1,210	1,210	(1,070)	140
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations		-	-	-	-	7,579	-	-	-	-	7,579	-	7,579
Total comprehensive income for the period		-	-	-	-	7,579	-	-	-	1,210	8,789	(1,070)	7,719
Final 2022 dividend and special dividend	9	-	-	-	-	-	-	-	-	(176,706)	(176,706)	-	(176,706)
At 30 June 2023 (unaudited)		27,807	98,081	59	373,151	23,502	(83,535)	(264,343)	2,943	2,176,591	2,354,256	(5,801)	2,348,455

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from/(used in) operations	13,187	(13,307)
Interest received	23,834	22,339
PRC corporate income tax paid	(12,109)	(22,722)
	24,912	(13,690)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(25,010)	(22,366)
Proceeds from disposal of items of property, plant and equipment	3,316	1,356
Decrease/(increase) in pledged deposits	308,155	(105,371)
Decrease in non-pledged time deposits with original maturity of more than three months when acquired	46,000	216,500
Advance receipt proceeds from disposal of items of property, plant and equipment	11,141	–
	343,602	90,119
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	198,462	515,400
Repayment of bank loans	(532,603)	(415,317)
Dividends paid	(61,809)	(66,525)
Principal portion of lease payments	(1,986)	(2,195)
Other cash flows used in financing activities	(5,876)	(3,516)
	(403,812)	27,847

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(35,298)	104,276
Cash and cash equivalents at beginning of period	443,950	362,397
Effect of foreign exchange rate changes, net	586	(141)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	409,238	466,532
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	409,238	346,532
Non-pledged time deposits with original maturity of less than three months when acquired	-	120,000
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	409,238	466,532
Non-pledged time deposits with original maturity of over three months when acquired	559,500	575,500
Less: Non-pledged time deposits with original maturity of over one year when acquired	(119,500)	(175,500)
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	849,238	866,532

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

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

2.2 CHANGES IN ACCOUNTING POLICIES (Continued)

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.

2.2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

- (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.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

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 (Unaudited) RMB'000	2022 (Unaudited) 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.

3. OPERATING SEGMENT INFORMATION (Continued)

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

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

5. OTHER INCOME AND GAINS, NET

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

	Six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) 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 (Unaudited) RMB'000	2022 (Unaudited) 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

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

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).

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group incurred RMB43,397,239 (2022: RMB16,083,000) 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 RMB2,795,297 (2022: RMB1,744,000).

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 2023 (Unaudited) RMB'000	31 December 2022 (Audited) 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

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 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

14. 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

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

15. COMMITMENTS

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

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	129,932	145,856
Plant and machinery	15,252	11,500
	145,184	157,356

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2022: Nil).

17. PLEDGE OF ASSETS

At the end of the reporting period, cash in bank (including time deposits) of RMB6,001,000 (31 December 2022: RMB314,156,000) was pledged for certain stand by letter of credit from a bank (31 December 2022: bank borrowings amounted to RMB297,981,000).

18. RELATED PARTY DISCLOSURES

- (a) The Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Company controlled by a director of the Company:			
Continuing connected transactions:			
Sales of products	(i)	–	2,619
Sales of calcium oxide	(i)	894	1,045
Purchases of cattle hides	(ii)	114,106	77,438
Rent of commercial properties	(ii)	106	53
Lease out of office	(ii)	124	124
Administrative support and liaising services	(ii)	218	216
Companies controlled by spouse of a director of the Company:			
Continuing connected transactions:			
Purchases of packaging materials	(ii)	17,663	15,394
Key management personnel of the Company:			
Proceeds from sales of motor vehicles	(ii)	–	320

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.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

18. RELATED PARTY DISCLOSURES (Continued)

(b) Balance with related parties

As at 31 December 2022, the Group had trade receivables of RMB877,000 due from Exceltech Food Trading SDN. BHD. (“Exceltech Trading”), which is controlled by Dato’ Sri Low Jee Keong, a director of the Company. The amount due from Exceltech Trading was unsecured, non-interest-bearing and had a repayment term of 60 days, which was on terms similar to those offered to other major customers of the Group. There were no such trade receivables balance as at 30 June 2023.

As at 30 June 2023, the Group had trade receivables amounting to RMB872,000 (31 December 2022: RMB680,000) due from Guangxi Zhiguan Industrial Development Co., Limited (“Guangxi Zhiguan”), which is controlled by Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng (retired on 31 May 2023), directors of the Company. The amount due from Guangxi Zhiguan was unsecured, non-interest-bearing and had a repayment term of 60 days, which was on terms similar to those offered to other major customers of the Group.

For the purpose of purchasing cattle hides, as at 30 June 2023, trade payables amounting to RMB8,652,000 (31 December 2022: RMB19,730,000) were payable to Guangxi Zhiguan. The trade and bills payables are settled on terms no longer than 180 days.

As at 30 June 2023, there were RMB3,181,000 trade payables (31 December 2022: RMB3,545,000) that were payable to Guangxi Wuzhou Junye Trademark Printing Material Co., Ltd. (“Wuzhou Junye”) for the purpose of purchasing packaging and printing materials. Wuzhou Junye is owned by Mr. Sha Shuming, the spouse of Ms. Zhou Yaxian, and Mr. Sha Junqi, a director of the Company.

As at 30 June 2023, there were no trade payables (31 December 2022: RMB561,000) that were payable to Wuzhou Zhongbo Packaging Co., Ltd. (“Zhongbo Packaging”) for the purpose of purchasing packaging and printing materials. Zhongbo Packaging is owned by Mr. Sha Shuming, the spouse of Ms. Zhou Yaxian, and Mr. Sha Junqi, a director of the Company.

18. RELATED PARTY DISCLOSURES (Continued)

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	5,788	5,795
Retirement benefit contributions	46	35
Total compensation paid/payable to key management personnel	5,834	5,830

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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 borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance controller reports directly to the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

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 following method and assumption were used to estimate the fair value:

The fair values of the non-current portion of pledged deposits and time deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2023 and 31 December 2022 were assessed to be insignificant.

The Group entered into derivative financial instrument with a financial institution with A-credit rating matured in 2023. Derivative financial instrument, being forward currency contract is measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of forward currency contract was the same as its fair values.

As at 31 December 2022, the mark-to-market value of the derivative liability position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value. The derivative asset was fully settled during the current period.

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instrument:

Assets measured at fair value

As at 30 June 2023

	Fair value measurement using			Total RMB'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active	inputs	inputs	
markets	(Level 2)	(Level 3)		
(Level 1)	RMB'000	RMB'000	RMB'000	
Derivative financial instrument	-	-	-	-

As at 31 December 2022

	Fair value measurement using			Total RMB'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active	inputs	inputs	
markets	(Level 2)	(Level 3)		
(Level 1)	RMB'000	RMB'000	RMB'000	
Derivative financial instrument	-	3,100	-	3,100

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2023

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value (Continued)

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2022: Nil).

20. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 22 August 2023.