



Shenguan Holdings (Group) Limited
(incorporated in the Cayman Islands with limited liability)
Stock Code: 00829

2019

Interim Results Presentation



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Agenda

Results Highlights

Business Review and Financial Performance

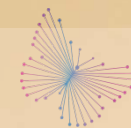
Outlook

Open Forum

Results Highlights

- Revenue increased slightly by approximately 2.8% to RMB386.8 million from RMB376.2 million.
- Cost of sales increased by approximately 19.3% to RMB284.3 million from RMB238.3 million, excluding the provision and write-off of inventory, the cost of sales increased by 17.9%.
- Gross profit decreased by approximately 25.7% to RMB102.5 million. The gross profit margin decreased from approximately 36.7% to 26.5%.
- Profit attributable to owners decreased by approximately 15.7% to RMB 31.4 million, and earnings per share was RMB 0.97 cents.
- Sound and stable financial position with net cash (cash and cash equivalents together with pledged and time deposits less total bank borrowings) of RMB 637.4 million, representing an increase of RMB 0.2 million.
- 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 under the “Internet+” era.
- Wuzhou Shenguan maintained the research and development platforms titles as the national-grade “Postdoctoral Science Research Workstation” , “Cluster of Collagen Technology Talents in Guangxi”, “Guangxi Collagen Engineering Technology Research Center” , “Guangxi Enterprise Technology Center” and “Guangxi Enterprise Research and Development Center”, and received the title of “Guangxi Collagen Extraction Technology Research Center” for the first time as approved by Guangxi Development and Reform Commission.

Results Highlights



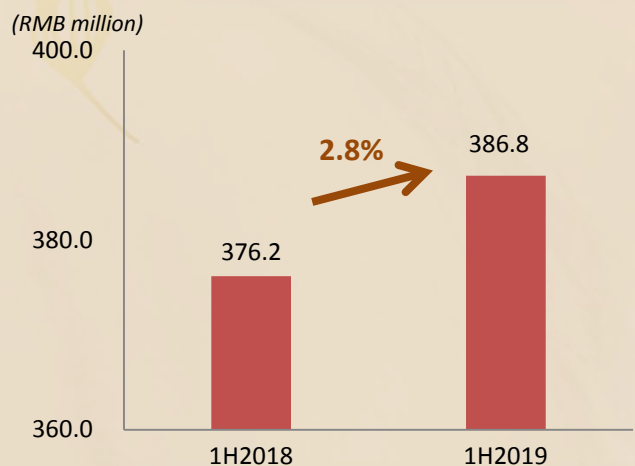
(in RMB million, unless otherwise stated)	1H2019	1H2018	Change
Revenue	386.8	376.2	+2.8%
Gross profit margin	26.5%	36.7%	-10.2ppt
Profit attributable to owners of the Company	31.4	37.2	-15.7%
Net margin (%)	8.1	9.9	-1.8ppt
Cash inflow from operating activities	104.7	115.2	-9.2%
Capital expenditure	14.2	10.4	+36.5%
	1H2019	FY2018	Change
Total assets	3,012.3	3,117.7	-3.4%
Gearing ratio (Total bank borrowings / total equity)	3.2%	2.9%	+0.3ppt
Current ratio (times) (Current assets / current liabilities)	6.69	6.22	+0.47 times

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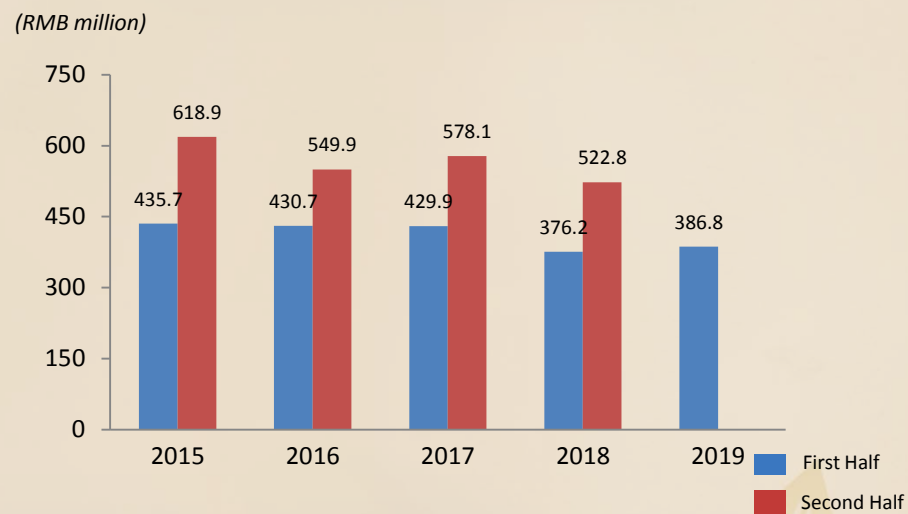
Business Review and Financial Performance

Revenue Analysis

Revenue



Revenue Trend

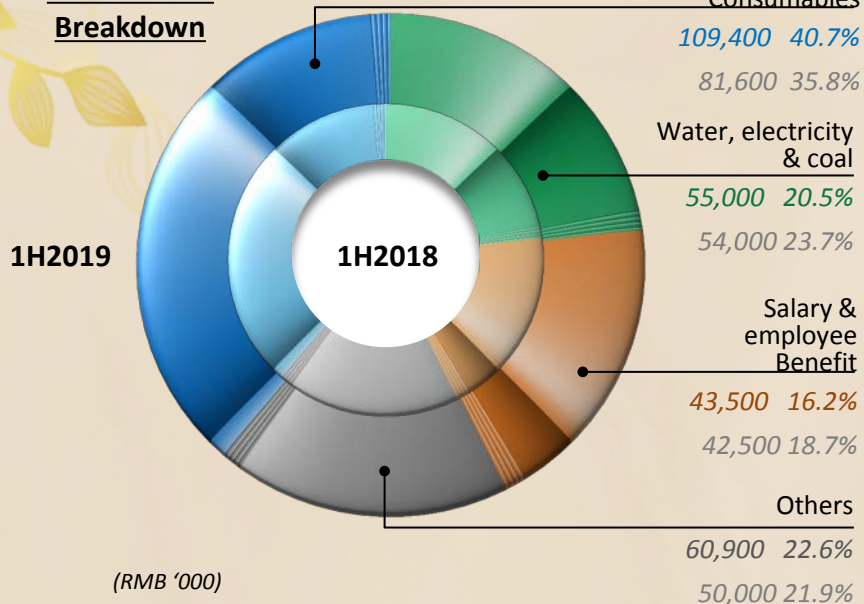


Revenue Increase

Despite the impact of the African Swine fever, the sales volume of collagen casings increased slightly compared to the previous period.

Cost of Sales Analysis

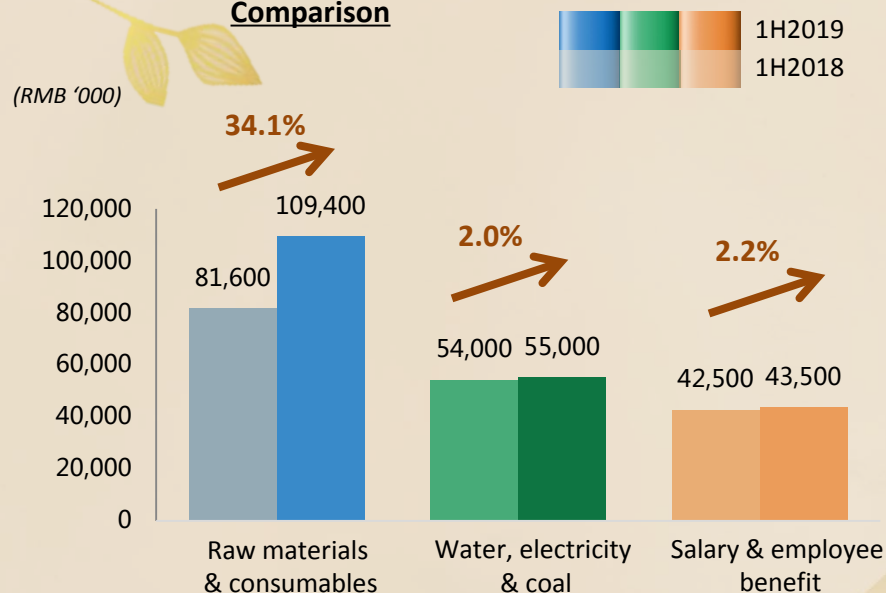
Cost of Sales Breakdown



(RMB '000)

*Exclude inventory impairment and credit

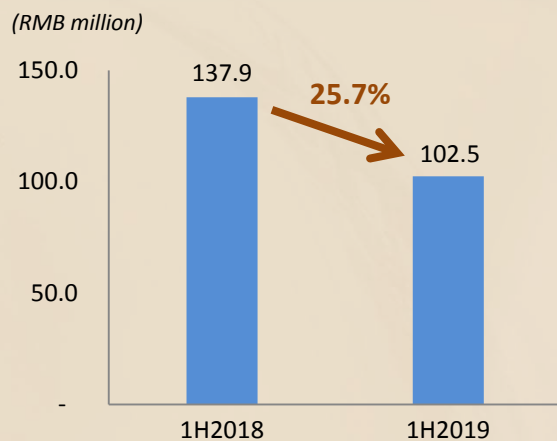
Cost of Sales Comparison



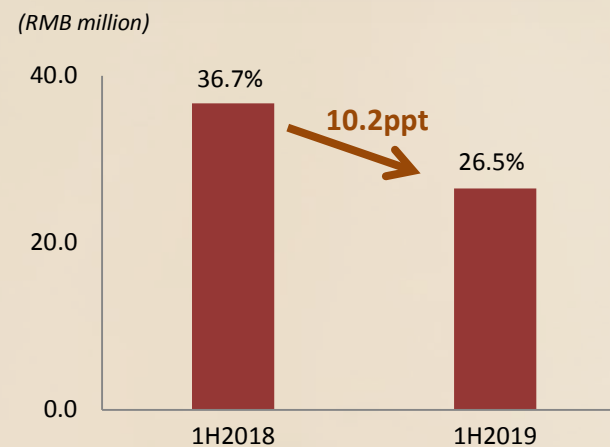
- Cost of sales increased by approximately 19.3% to RMB 284.3 million from RMB238.3 million, including the provision and write-off of inventory of RMB 15.5 million, as compared to RMB 10.3 million for the Prior Period.
- Excluding the provision and write-off of inventory, the cost of sales increased by 17.9%.
- The costs of raw materials and consumables for the Period increased by 34.1% from RMB81.6 million to RMB109.4 million.

Gross Margin Analysis

Gross Profit



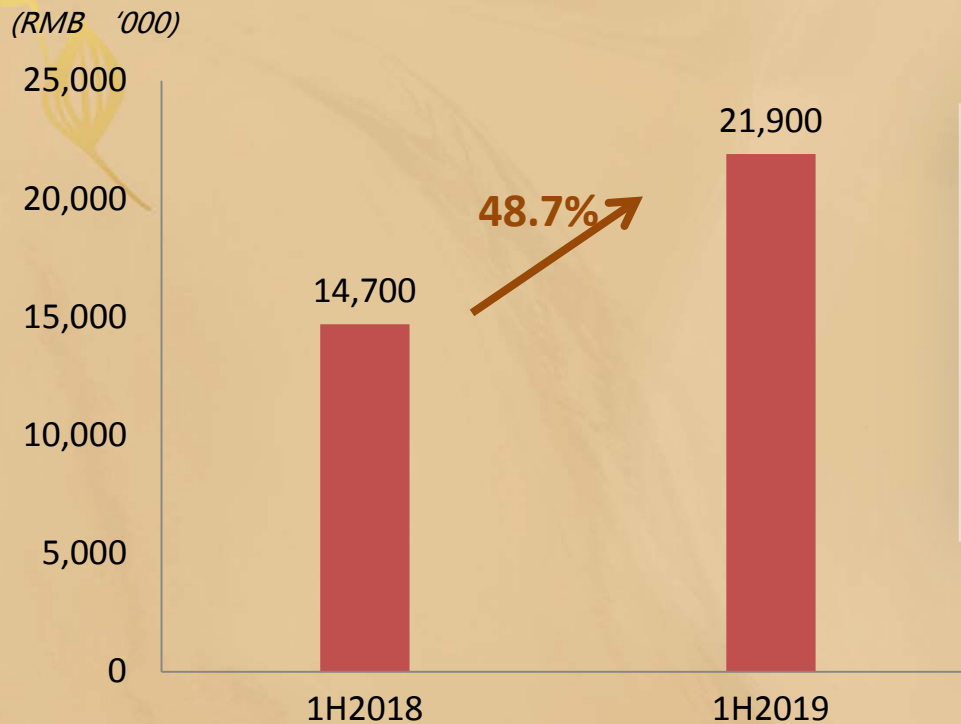
Gross Margin



Reasons of gross margin decrease

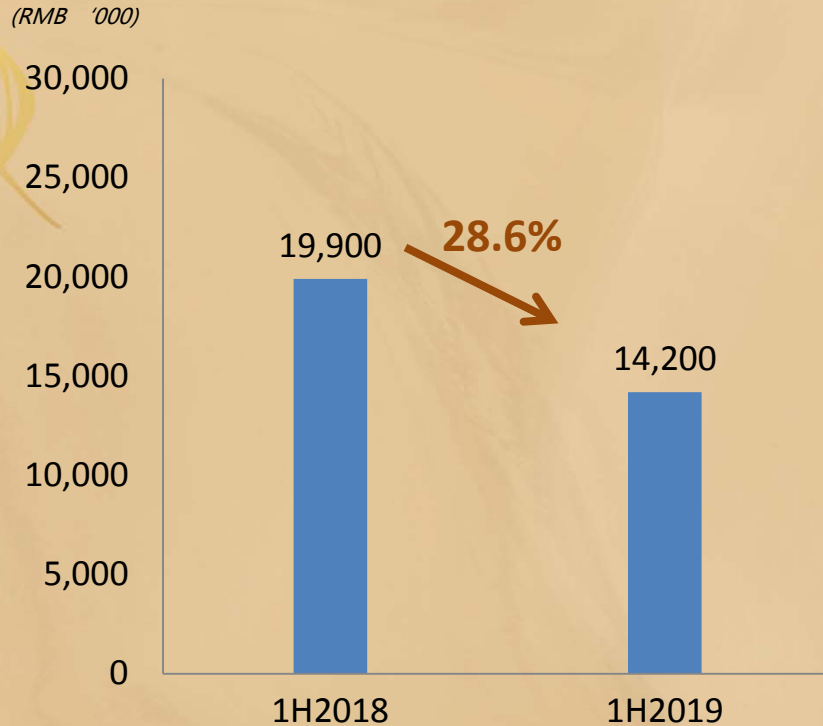
- Increase in raw material prices and trial production costs of casings.
- Since the fourth quarter of 2018, raw material prices have risen due to the continuously improved environmental protection requirements in China. Since the second quarter of 2019, the Group continues to negotiate with raw material suppliers and as a result, raw material prices saw a certain extent of decrease.
- Continued to actively develop various new casings to meet the continuously developing customer needs, the trial production cost of casings also increased significantly.

Other Income and Gains



- Other income and gains increased by approximately 48.7% to RMB21.9 million from RMB14.7 million.
- Primarily attributable to the increase in bank interest income and dispose of a land use right.

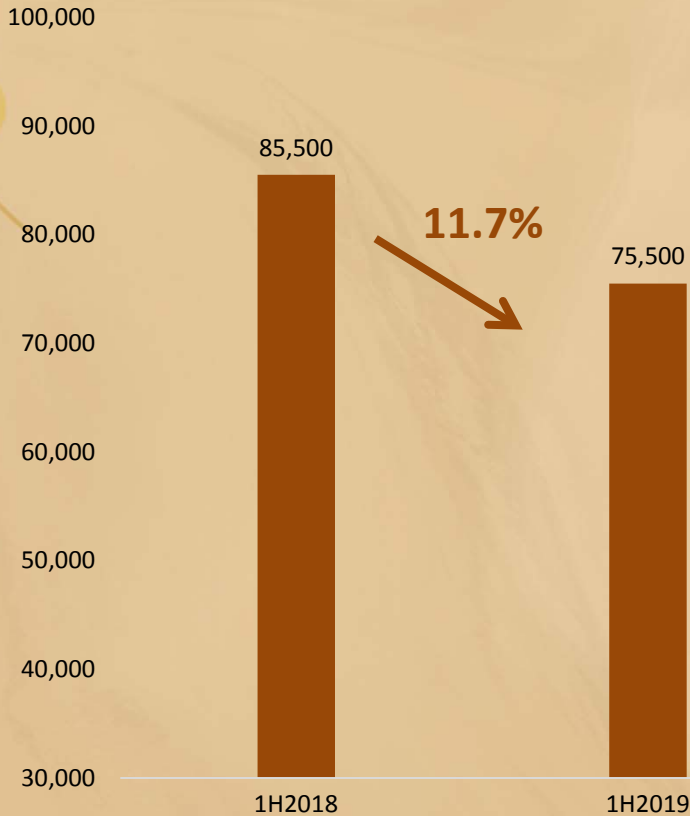
Selling and Distribution Expenses



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

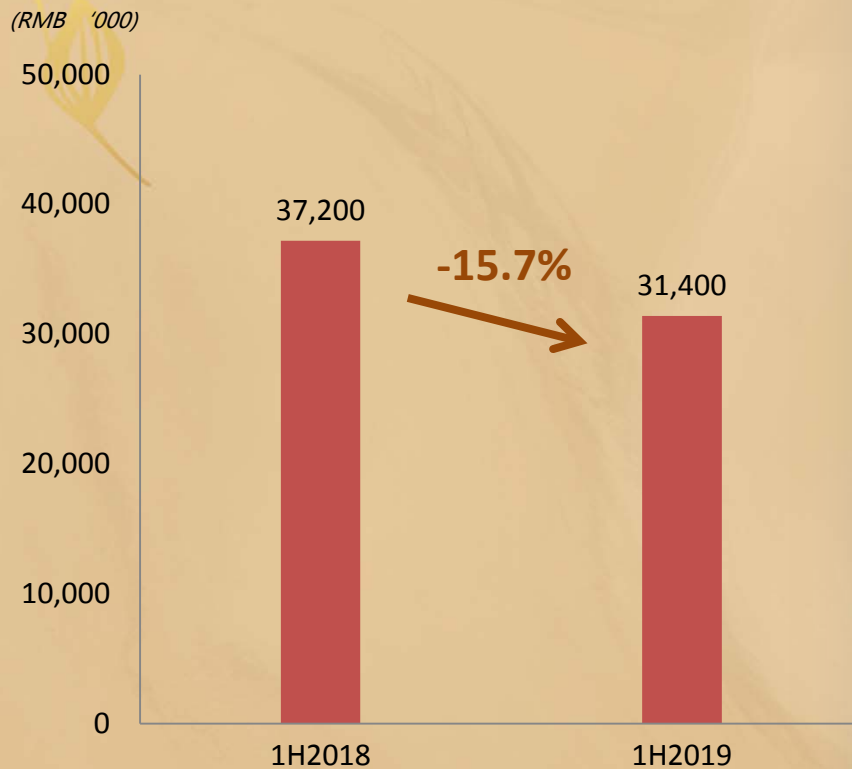
Administrative expenses

(RMB '000)



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

Net Profit and Margin

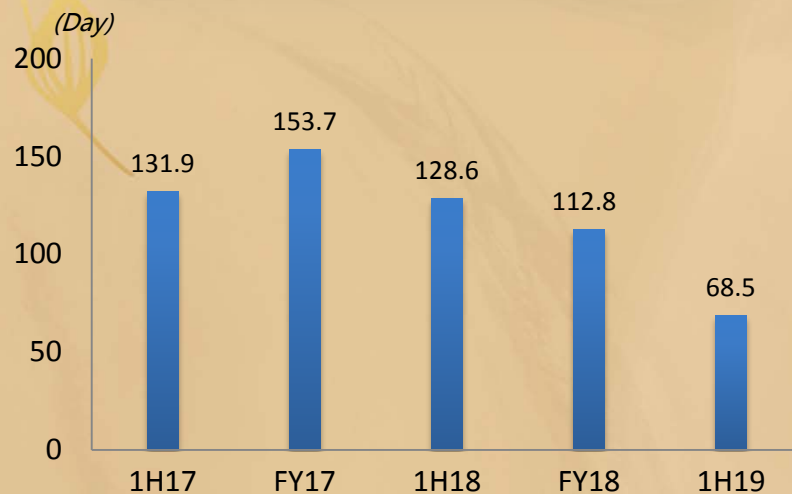


Major reasons :

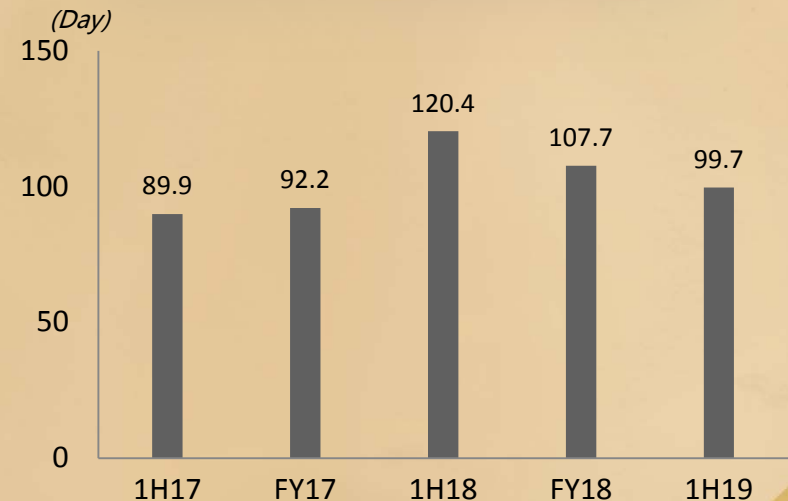
- The gross profit margin declined due to the increase in raw material prices and the increased trial production cost of new type of casings.
- The Group's selling and distribution expenses and administrative expenses for the exploration of new products, including facial masks, instant edible solid collagen and collagen rice noodle, for the Year and the Prior Year totaled RMB 8.0 million and RMB 10.3 million, respectively.

Working Capital Analysis

Trade and Bills Payable Turnover Days



Trade and Bills Receivables Turnover Days

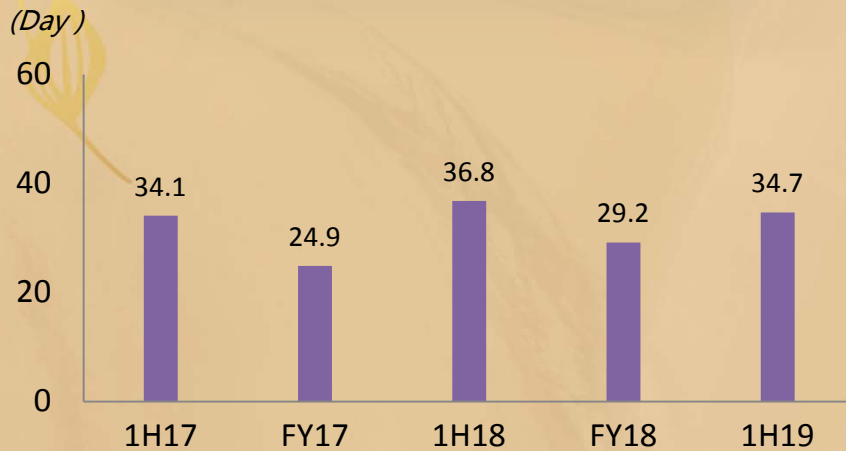


- Trade payable turnover days decreased by 60 days from the Prior Period, and the Group made full use of the credit period provided by the suppliers, and the credit period is for a period of 60-180 days.
- Trade receivable turnover days decreased by approximately 20 days; The Group closely monitors the operating situation of China's meat products industry and strictly controls customer credit; The credit period is generally for a period of one month, extending up to three months for certain customers. About 69.3% of the trade and bills receivables are less than 3 months.

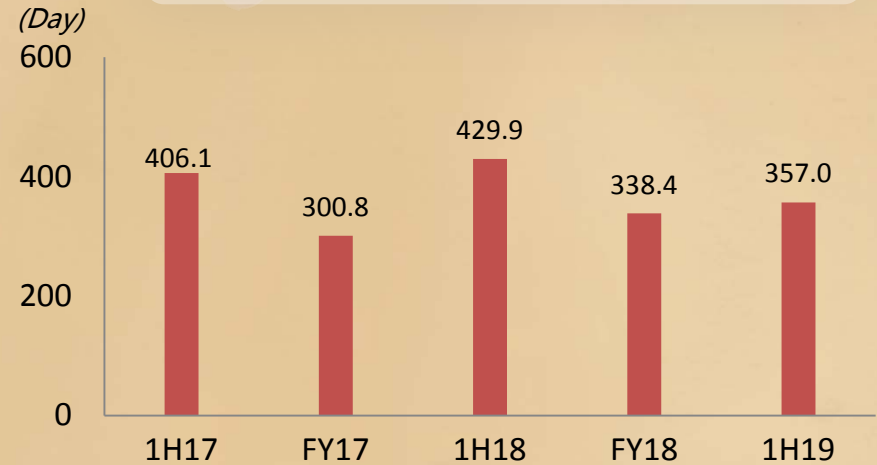
* Calculated as the average of the opening and closing balance of the period

Working Capital Analysis

Inventory Turnover Days – Raw Materials



Inventory Turnover Days – FG & WIP



- Turnover days of raw materials, finished goods and work in progress all increased from last year end, but slightly lower than in 1H2018.
- Took into account of seasonality factors, the production peak period is mainly in the first half of the year, while the sales peak period is in the second half of the year.

* Calculated as the average of opening and ending inventory balance of the year

Cash & Bank Borrowings

- Cash and cash equivalents together with the pledged and time deposits amounted to RMB 725.4million.
- Total bank borrowings amounted to about RMB 88.0 million, which all denominated in Hong Kong Dollars.
- Net cash position of RMB 637.4 million, representing an increase of RMB 0.2 million as compared to that at the end of 2018.
- Debt-to-equity ratio reduced to 3.2% (2.9% as at 31 Dec 2018)
- Net cash inflow of RMB104.7 was generated from operating activities, while financing activities utilized RMB100 million. 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.

Note: Debt-to-equity ratio was calculated by dividing total borrowings by the total equity

Market Review

- Facing the volatile and complicated external environment and economic downward pressure, China's economic growth remained a steady upward momentum.
- 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.
- Owing to the continuously impact of African swine fever 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.

Business Review

- ◆ For **collagen sausage casings** , continued to actively develop various new casings to meet the continuously developing customer needs.
- ◆ **Collagen food products** were put into trial production, some of which were already sold in the market.
- ◆ For **collagen skincare products**, which achieved substantial progress in R&D, 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,**
 - Collagen-based bone repairing biomaterials is being tested for its product technical indicators.
 - New products such as sterile low endotoxin medical collagen and hydrophilic band-aids are under R&D.
 - Guangdong provincial authorities has been filed with the corporate standards on Fibrous Type I Collagen, Medical Soluble Type I Collagen and Collagen Wound Dressing .
 - 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.

Patent Analysis

- 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.
- 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



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Outlook

Outlook

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.

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.

Strategy and Plan

Accelerate the implementation of product diversification strategies

- Put efforts in the R&D of new collagen-based food products, healthcare products, cosmetics, medicine and medical materials.
- 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.

Principal business consolidation and new product launch

- While enhancing product quality, vigorously develop its principal business and seek overseas cooperation opportunities.
- Take automation and intellectualization as the elements to improve the level of equipment, enhance production efficiency and reduce cost effectively.
- Accelerate the R&D 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.

Strategy and Plan

Focus on R&D to meet market demand

- Continue to promote the R&D of the collagen skincare product and collagen medical materials.
- Spare no effort in product sales planning to ensure that they are catered for the needs of contemporary society.
- Fully engaged in marketing activities in respect of e-commerce, micro commerce and agent sales to ensure comprehensive product promotion.
- Collagen-based bone repairing biomaterials is expected to apply for clinical trial during this year.

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.
- Strengthen internal training and management to improve the quality and capabilities of its staff and to achieve high standards of management and work efficiency.



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Open Forum