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SHENGUAN HOLDINGS (GROUP) LIMITED

神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

INTERIM RESULTS 2011 ANNOUNCEMENT

RESULTS HIGHLIGHTS

- Achieved revenue of RMB604.2 million, increased by 27.1% year over year
- Achieved profit attributable to owners of the Company of RMB305.2 million, increased by 37.3% year over year
- Resolved the payment of an interim dividend of HK4.3 cents per share
- Proceeds were applied in accordance with the prospectus of the Company dated 30 September 2009

The board (the “Board”) of directors (the “Directors”) of Shenguan Holdings (Group) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2011 (the “Period”), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. The 2011 consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 22 August 2011.

During the Period, the demand for the products of the Group maintained healthy growth with breakthrough results. The revenue from the sales of the collagen sausage casings soared 27.1% to RMB604.2 million as compared to the corresponding period in 2010. During the Period, profitability of the Group was improved. The profit attributable to owners of the Company was RMB305.2 million throughout the Period, representing a growth of 37.3% over the same period in 2010. The basic earnings per share attributable to owners of the Company was RMB9.19 cents. The Board resolved the payment of an interim dividend of HK4.3 cents per share. For reference purpose, the closing exchange rate for Renminbi to Hong Kong Dollars as announced by the People’s Bank of China at the announcement date is RMB0.82062 to HK\$1.00. Accordingly, the amount of interim dividend per share equivalent to RMB3.5287 cents, representing a dividend payout ratio of 38.4%.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
	Notes	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
REVENUE	4	604,168	475,348
Cost of sales		(218,527)	(176,596)
Gross profit		385,641	298,752
Other income and gains	4	32,819	17,579
Selling and distribution costs		(7,445)	(4,106)
Administrative expenses		(28,610)	(25,395)
Finance costs	5	487	(2,557)
PROFIT BEFORE TAX	6	382,892	284,273
Income tax expense	7	(67,942)	(54,833)
PROFIT FOR THE PERIOD		314,950	229,440
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		(16,322)	(8,376)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(16,322)	(8,376)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		298,628	221,064
Profit attributable to:			
Owners of the Company		305,155	222,258
Non-controlling interests		9,795	7,182
		314,950	229,440
Total comprehensive income attributable to:			
Owners of the Company		288,833	213,882
Non-controlling interests		9,795	7,182
		298,628	221,064
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		(Restated)
Basic (RMB cents per share)		9.19	6.69
Diluted (RMB cents per share)		9.17	6.69

Details of dividends are disclosed in note 8 to this announcement.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		825,805	722,421
Prepaid land lease payments		93,860	107,732
Patent		715	1,144
Available-for-sale investment		200	200
Deferred tax assets		6,145	8,790
Long term prepayments		10,532	16,343
Total non-current assets		937,257	856,630
CURRENT ASSETS			
Inventories		197,342	118,849
Trade and bills receivables	10	225,583	137,210
Prepayments, deposits and other receivables		69,105	97,364
Held-to-maturity investments		356,185	201,965
Cash and cash equivalents		458,632	787,736
Total current assets		1,306,847	1,343,124
CURRENT LIABILITIES			
Trade payables	11	52,545	26,357
Other payables and accruals		101,347	119,631
Tax payable		12,411	31,800
Deferred income		–	3,305
Total current liabilities		166,303	181,093
NET CURRENT ASSETS		1,140,544	1,162,031
TOTAL ASSETS LESS CURRENT LIABILITIES		2,077,801	2,018,661
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		30,000	140,000
Deferred income		13,431	14,061
Deferred tax liabilities		11,212	–
Total non-current liabilities		54,643	154,061
Net assets		2,023,158	1,864,600

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
EQUITY		
Equity attributable to owners of the Company		
Issued capital	28,568	14,633
Reserves	1,957,874	1,823,046
	1,986,442	1,837,679
Non-controlling interests	36,716	26,921
Total equity	2,023,158	1,864,600

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the “Company”) was incorporated in the Cayman Islands on 24 February 2009 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The unaudited condensed interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010.

The accounting policies and method of computation adopted in the preparation of this unaudited condensed interim financial information are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2010 and in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs, and Interpretations) issued by the HKICPA, except that the Group has in the current period applied, for the first time, the following new and revised HKFRSs:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC) – Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the Group has adopted *Improvements to HKFRSs 2010** issued by the HKICPA which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

* *Improvements to HKFRSs 2010* contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC) – Int 13.

The adoption of these new Standards and interpretations has had no significant financial effect on this unaudited condensed interim financial information and there have been no significant changes to the accounting policies applied in this unaudited condensed interim financial information, except for the following amendments included in *Improvements to HKFRSs 2010*:

- (a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of manufacture and sale of edible collagen sausage casing products. For management purposes, the Group operates in one business unit based on its products, and has one reportable operating segment which is the collagen casing segment that produces western-style collagen sausage casing and Chinese-style collagen sausage casing.

No operating segments have been aggregated to form the above reportable operating segment.

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<u>Revenue</u>		
Sale of goods	604,168	475,348
<u>Other income and gains</u>		
Bank interest income	6,284	6,415
Interest income from held-to-maturity investments	4,220	–
Sales of dried meat products	694	521
Foreign exchange gains, net	17,217	5,817
Reversal of impairment of trade receivables	–	2,134
Government grants	4,173	2,496
Others	231	196
	32,819	17,579

5. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	2,818	2,557
Less: Government grants	(3,305)	–
	(487)	2,557

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	20,664	15,159
Amortisation of patent	429	429
Amortisation of prepaid land lease payments	1,074	373

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong. The provision for People's Republic of China (the "PRC") income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC.

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax charge for the period – Mainland China	54,085	40,596
Deferred tax	13,857	14,237
Total tax charge for the period	67,942	54,833

8. DIVIDENDS

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividends declared and paid for 2010 – HK4.0 cents (2009: HK2.3 cents, as restated) per ordinary share	113,079	67,295
Special dividend declared and paid for 2010 – HK1.0 cent (2009: Nil) per ordinary share	27,955	–
	141,034	67,295

Subsequent to the reporting period, the Directors recommend the payment of an interim dividend of HK4.3 cents per ordinary share. For the six months ended 30 June 2010, the interim dividend declared and paid was HK3.0 cents per ordinary share (as restated).

The dividend per ordinary share amounts have been adjusted to reflect bonus issue which took place on 20 June 2011.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the Period is based on the profit for the period attributable to owners of the Company of RMB305,155,000 (six months ended 30 June 2010: RMB222,258,000), and the weighted average number of ordinary shares of 3,322,120,000 (six months ended 30 June 2010: 3,320,000,000, as restated) in issue during the Period, as adjusted to reflect the bonus issue during the Period.

The calculation of the diluted earnings per share amount for the Period is based on the profit for the Period attributable to owners of the Company of RMB305,155,000 (six months ended 30 June 2010: RMB222,258,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 4,906,000 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares, as adjusted for the bonus issue during the Period.

The weighted average numbers of ordinary shares for the Period and the six months ended 30 June 2010 have been retrospectively adjusted for the bonus issue taken place on 20 June 2011.

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for major customers. An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 3 months	192,248	132,686
3 to 4 months	21,400	1,260
Over 4 months	11,935	3,264
	225,583	137,210

11. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the Period, based on the invoice date, is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 1 month	25,176	20,433
1 to 2 months	12,486	1,976
2 to 3 months	6,581	697
Over 3 months	8,302	3,251
	52,545	26,357

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

The PRC economy continued to blossom during the first half of 2011 despite the lurches of the global economy. The robust economic growth in the PRC contributed to the rise in consumption power of the PRC residents. According to the preliminary figures of the National Bureau of Statistics, the GDP of the PRC in the first half of 2011 was approximately RMB20,446 billion, representing a year-on-year growth of approximately 9.6%. The capita disposable income of urban residents was RMB11,041 and the per capita net income of rural residents was RMB3,706 respectively after eliminating the pricing factor.

Stimulated by the strong resurgence of the PRC economy and improved standard of living brought about by a prosperous economy, demand for meat products continued to increase. Demand for processed meat products has enjoyed fast growth in particular as consumers substitute processed meat products to fresh meat which has seen rising pressure in selling price. The Group, as the largest edible collagen sausage casing manufacturer in China, is well-poised to benefit from the vast business opportunities that an emerging processed meat products market offers.

Recent incident on product quality of meat suppliers raised concerns over food safety across the nation and briefly affected the demand for fresh and processed meat products. However, the Group's sales of collagen sausage casings kept rising steadily and achieved its expectation, as the demand from other industry players remained strong which quickly offset the decline in demand from major players.

During the Period, the revenue of the Group increased by 27.1% to RMB604.2 million from RMB475.3 million in the same period in 2010. Profit attributable to owners of the Company increased by 37.3% to RMB305.2 million for the Period from RMB222.3 million in the same period in 2010.

The Board resolved the payment of an interim dividend for the Period of HK4.3 cents per share (2010: HK3.0 cents, as restated).

Product Mix

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings during the Period, most of which are used for western-style sausages. Thanks to the rising demand for sausages, in particular, low temperature sausages, and the diversity of ingredients used in sausage products in the PRC market, the market demand for high quality collagen sausage casings continued to grow significantly.

During the Period, western-style collagen sausage casing products remained as the Group's major source of revenue. The sales of western-style collagen sausage casing products reached RMB574.0 million for the Period (2010: RMB443.1 million), representing a growth of 29.5% over the previous year and accounted for 95.0% of the total revenue of the Group (2010: 93.2%). The sales of Chinese-style collagen sausage casings was approximately RMB30.2 million (2010: RMB32.2 million), decreasing moderately by 6.2% over the previous year, and represented approximately 5.0% of the total revenue (2010: 6.8%).

The Group obtained a license in October 2010 to produce Muslim sausage casings, a new collagen sausage casing product tailor made for Muslims, with an aim to diversify its product portfolio, explore new market opportunities and increase market share in the collagen sausage casings industry. This new type of collagen sausage casings is currently sold locally within the China market and is expected to be launched in overseas markets in the second half of 2011 or the first half of 2012 upon receiving relevant permission from the authority. It is expected that the sales contributions from Muslim sausage casings exports will be reflected in 2012.

During the Period, the Group offered different sizes of collagen sausage casing products, with diameters ranging from 13-50 mm. Sales of large-sized diametrical casings continued to increase during the Period owing to popular market demand. During the Period, about 76.7% of the Group's sales was casings with diameters ranging from 16-21 mm. With the technology breakthrough that the Group successfully developed during the Period, the Group was able to extend its product range to smaller diametrical casings of 13-15mm to cater for increasing market demand.

Mainland China is the major market of the Group's products with over 95% of the sausage casings manufactured by the Group are sold to the sausage manufacturers in the PRC, while the remaining products are mainly exported to South America, Southeast Asia, the United States and Europe.

Supply of Raw Materials

The core raw material for collagen sausage casing production is cattle's inner skin. The supply of cattle's inner skin has remained stable in the past few years. Relying on the good relationship established between the Group and the suppliers over the years, the Group expects to secure a stable supply of cattle's inner skins in the future. During the Period, the cost of raw materials was RMB89.1 million, (2010: RMB72.2 million) accounting for 40.8% of the Group's total cost of sales.

Cost Control

The Group was challenged by growing cost pressure as inflation, appreciation of Renminbi against other currencies and rising labour costs persisted in the first half of 2011. Intensified market competition also caused the Group to investigate for new ideas to enhance its competitiveness. Owing to the above factors, the Group dedicated efforts in enhancing the efficiency of existing production lines to cater for rising market demand, optimizing its energy saving facilities for cost-saving and leveraging on its technology expertise to enrich product portfolio and maintain profitability. Gross profit margin increased from 62.8% for the same period in last year to 63.8% for the Period.

Production Capacity

Owing to the rapidly growing demand for collagen sausage casings, the Group invested in new production capacity during the Period.

The Group currently owns two production plants at Wuzhou with 170 production lines in operation as at 30 June 2011. The weighted average capacity calculated by the operating time of the production lines was 1,938.0 million meters and the actual production volume was approximately 1,813.1 million meters for the Period.

The Group's collagen processing plant capacity was greatly enhanced with the commencement of the new Sifu production base. The site formation work was completed on the land area of approximately 350,000 sq. m. in the Sifu production base with a new production plant and freeze storehouse of 45,000 sq. m.. During the Period, the Group continued to relocate the collagen processing facilities into the new collagen processing plant from the old Fudian production base, which further strengthened the Group's collagen processing efficiency and improved the quality of the collagen processed. In addition, the Group enhanced production lines in the old Fudian production base and added new automotive facilities to improve production efficiency.

Technological Research and Development

The Group considers research and development ("R&D") of new technologies and products as one of its competitive strengths. The Group provides tailor-made collagen sausage casing products to fulfill customer needs, and is typically involved in the early stages of the R&D process for new sausage products. The Group believes that strong R&D is the core of its success. In particular, the patented technologies are the key to differentiate the Group from market peers and raise entry barriers for competitors. The Group will continue optimize its production technology in order to reduce the production costs.

As at 30 June 2011, the Group had registered 2 trademarks and 22 patents with the State Intellectual Property Office, with another 8 patents being accepted for application and pending for approval.

Quality Control

Quality control is the Group's core competitive strengths. In order to produce products with high standard of quality to the customers, the Group undertakes strict quality control over every single production process. During the Period, the Group has passed the ISO9001: 2008 Quality Management System and ISO22000: 2005 Food Safety Management System annual review for its quality control, and has obtained FDA registration for the export of products to the United States. In addition, all of its products have complied with the national standards (GB14967-94) and sausage casing manufacturing industry standards (SB/T10373-2004). All these recognitions enable the Group to become a trustworthy product supplier for its customers.

In light of the recent food safety issues among various processed meat products producers, the Group has exerted greater effort in the safety and quality control of its products. Since the second half of 2010, the Group has invested approximately RMB10.4 million for the establishment of an examination center for the assessment of raw materials and finished products. The examination center was equipped with the latest technology and is run by a team of high caliber professionals to ensure the raw materials that the Group uses and the finished products are of highest quality. The examination center has entered trial operation stage since the end of 2010.

Customer Relationship

The Group provides tailor-made collagen sausage casing products (in different types and sizes) to fulfill the needs of customers, and is typically involved in the early stages of the R&D process for new sausage products, as well as provides training to customers for the efficient usage of the Group's products. Over the years, the Group has established a long-term relationship with leading manufacturers of processed meat products and sausages in the PRC. During the Period, the Group received orders from various overseas markets, including South America, Southeast Asia, the United States and Europe. The orders from customers of Southeast Asia increased by 191.7% as compared to the corresponding period last year.

During the Period, the Group continued to provide a range of high quality sausage casing products to a number of renowned food product suppliers in the PRC, including but not limited to Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Beijing Shunxiu Agriculture Co., (北京順鑫農業股份有限公司), China Agri-Industries Holdings Ltd. (中國糧油控股有限公司), China Yurun Food Group Co., Ltd. (中國雨潤食品集團有限公司), People's Food Holdings Limited (大眾食品控股有限公司), Fujian Sunner Development Co., Ltd. (福建聖農發展股份有限公司), Shandong Delisi Food Co., Ltd. (山東得利斯食品股份有限公司), China Kangda Food Co., Ltd. (中國康太食品股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and Tangrenshen Group Co., Ltd. (唐人神集團股份有限公司).

Energy Saving

The Group adopted and optimized the heat energy technology and greatly reduced the use of energy. The Group achieved satisfying results in the trial run of replacing steam boilers by heat pumps in the drying process in 2009. Riding on this initial success, the Group carried out third generation improvements on the technology of heat pumps and applied it to all production lines, demonstrating significant energy saving result. The use of standard coal was significantly reduced and the reduction in cost was achieved. Energy cost for the Period was approximately RMB54.4 million, up by 16.2% as compared to the same period last year. Such increase was even lower than the Group's product volume growth during the Period. The new energy saving technology substituted coal with electricity, which the Group believed would reduce the emission of waste gas and achieve commendable results to the environmental protection.

FINANCIAL ANALYSIS

Revenue

The Group's revenue increased by 27.1% from RMB475.3 million for the six months ended 30 June 2010 to RMB604.2 million for the Period, driven by the significant growth in the sales of western-style collagen sausage casings. During the Period, the aggregate amount of sausage casings sold by the Group was 1,384.4 million meters.

Sales of western-style collagen sausage casings increased by 29.5% from RMB443.1 million for the six months ended 30 June 2010 to RMB574.0 million for the Period. The increase in sales of these products was principally a result of (i) an expansion of the Group's sales and marketing network in the PRC; (ii) an increase in overall market demand for these products in the PRC resulting from rapid urbanization and continuous economic development; and (iii) the Group's expansion of its scale of production in response to the rapid increase of market demand.

Cost of sales

Cost of sales increased by 23.7% from RMB176.6 million for the six months ended 30 June 2010 to RMB218.5 million for the Period. The increase was generally in line with the increase in sales over the same period and was driven by the following factors: (i) the cost of raw materials increased by RMB16.9 million due to increased production volume; (ii) water, electricity and coal expenses increased by RMB7.6 million; and (iii) the direct labor expenses increased by RMB10.2 million, as the Group hired more workers and annually reviewed their remuneration to support its operations. During the Period, the aggregate amount of sausage casings produced by the Group was 1,813.1 million meters and the Group has maintained an equipment utilization rate of 93.6%.

Gross profit

Gross profit increased by 29.1% from RMB298.8 million for the six months ended 30 June 2010 to RMB385.6 million for the Period. The Group's dedicated efforts in enhancing the efficiency of existing production lines to cater for rising market demand, optimizing its energy saving facilities for cost-saving and leveraging on its R&D expertise to enrich product portfolio and maintain profitability, the Group has seen gross profit margin of the Group increased from 62.8% for the same period in last year to 63.8% for the Period.

Other income and gains

Other income and gains increased by 86.7% from RMB17.6 million for the six months ended 30 June 2010 to RMB32.8 million for the Period, which was mainly attributable to the increase in interest income from bank deposits and PRC government treasury bonds. Total interest income increased from RMB6.4 million for the six months ended 30 June 2010 to RMB10.5 million for the Period.

Selling and distribution costs

Selling and distribution expenses increased by 81.3% from RMB4.1 million for the six months ended 30 June 2010 to RMB7.4 million for the Period. Selling and distribution expenses accounted for 0.9% of the revenue for the six months ended 30 June 2010 and 1.2% of the revenue for the Period. The increase in selling and distribution expenses was mainly due to the increase in transportation expenses from RMB2.4 million for the six months ended 30 June 2010 to RMB4.5 million for the Period.

Administrative expenses

Administrative expenses increased by 12.7% from RMB25.4 million for the six months ended 30 June 2010 to RMB28.6 million for the Period. The increase in administrative expenses was mainly caused by the increase in staff salary and expense in benefits, which was principally a result of (i) an increase in headcount of administrative staff; and (ii) the payments of performance-based bonuses to some management personnel which were based on the profitability of the Group's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") and its subsidiaries.

Finance costs

Finance costs decreased from a charge of RMB2.6 million for the six months ended 30 June 2010 to a credit of RMB0.5 million for the Period. The decrease was due to the grant of a government subsidy of RMB3.3 million which offset the interest on bank loans of RMB2.8 million.

Income tax expenses

Income tax expenses were RMB54.8 million for the six months ended 30 June 2010, as compared to RMB67.9 million for the Period. The Company's major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its geographical presence in Western China, which resulted that the applicable tax rate for Wuzhou Shenguan was 15%.

The Group's effective tax rates were charged at 19.3% and 17.7% to the profit before tax for the six months ended 30 June 2010 and 2011, respectively. The difference between the effective tax rates and the applicable tax rates was due to the withholding tax levied on dividends declared from Wuzhou Shenguan to its holding companies incorporated in Hong Kong.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests was increased by 36.4% from RMB7.2 million for the six months ended 30 June 2010 to RMB9.8 million for the Period due to the increase in profit after tax.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 37.3% from RMB222.3 million for the six months ended 30 June 2010 to RMB305.2 million for the Period. The Group's net profit margin attributable to owners of the Company increased from 46.8% for the six months ended 30 June 2010 to 50.5% for the Period.

LIQUIDITY AND CAPITAL RESOURCES**Cash and bank borrowings**

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

As at 30 June 2011, the cash and cash equivalents amounted to RMB458.6 million, representing a decrease of RMB329.1 million from the end of 2010. Among the cash and bank deposits balance, 97.2% was denominated in Renminbi and the remaining 2.8% were denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2011, the total liabilities of the Group amounted to RMB220.9 million (31 December 2010: RMB335.2 million), of which RMB30.0 million was long-term bank borrowings due in the third to fifth years, inclusive. As at 30 June 2011, the Group had no short-term bank borrowings due within one year. All of the Group's bank borrowings were subject to floating interest rates currently ranging from 5.76% to 6.65% per annum and were denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB428.6 million as at 30 June 2011 together with held-to-maturity investments of RMB356.2 million. The debt-to-equity ratio was 1.5% as at 30 June 2011 (31 December 2010: 7.5%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Period, RMB178.1 million and RMB166.8 million, respectively were generated from the operating activities and investing activities, while the amounts spent on financing activities was RMB260.2 million. Net cash outflow from financing activities was mainly related to the distribution of a final dividend for 2010 by the Company and the repayment of bank loans. Net cash inflows from investing activities were mainly related to a decrease in non-pledged time deposits with original maturity of more than three months when acquired, which was partly offset by the expansion of production facilities, purchase of property, plant and equipment, as well as an increase in held-to-maturity investments. Non-pledged time deposits with original maturity of more than three months when acquired amounted to RMB120.5 million as at 30 June 2011.

Exchange risk exposure

The Group mainly operates in the PRC with most transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations were mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group had not adopted formal hedging policies and no instruments had been applied for foreign currency hedging purposes during the Period.

Capital expenditure

The cash outflow for the capital expenditure used in investing activities during the Period amounted to RMB109.2 million and capital commitments as at 30 June 2011 amounted to RMB410.9 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production lines.

In 2011, the Company has budgeted to spend around RMB400 million for capital expenditure, including mainly the capital expenditure to increase the Group's production capacity to cope with the increasing demand of its products.

Pledge of assets

As at 30 June 2011, none of the Group's assets was pledged.

Acquisitions, disposals and significant investment

On 4 March 2011 and 11 March 2011, the Group (through Wuzhou Shenguan) acquired the 3.45% one-year term certificate treasury bonds issued by the Ministry of Finance of the PRC in the aggregate principle amount of RMB110,000,000 and RMB40,000,000, respectively. For details of the treasury bonds acquisitions, please refer to the announcements of the Company dated 4 March 2011 and 13 March 2011, respectively.

On 1 June 2011, Forever Gather Limited ("Forever Gather", an indirectly wholly-owned subsidiary of the Company) entered into an equity transfer agreement (the "Agreement") with the shareholders of Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited ("Wuzhou Xiansheng") pursuant to which Forever Gather conditionally agreed to acquire the entire equity interests in Wuzhou Xiansheng held by the shareholders of Wuzhou Xiansheng at the consideration of RMB372,011,508.

Wuzhou Xiansheng is owned as to 35.60% by Ms. Zhou Yaxian, 4.60% by Mr. Ru Xiquan, 4.60% by Ms. Cai Yueqing and 4.60% by Mr. Shi Guicheng. Ms. Zhou is the Chairman, an executive Director and a controlling shareholder of the Company. Mr. Ru, Ms. Cai and Mr. Shi are executive Directors. Thus, the Agreement constituted a connected transaction for the Company. For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 1 June 2011.

Saved as disclosed above, during the Period, there was no other material acquisition, disposal or investment by the Group.

Contingent liabilities

As at 30 June 2011 and up to the date of this announcement, the Group was not aware of any material contingent liabilities.

Use of proceeds

On 13 October 2009, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Net proceeds received by the Company from the initial public offering were approximately RMB1,190.6 million.

As at 30 June 2011, approximately RMB14.1 million of the proceeds was used for the repayment of the outstanding amount due to shareholders, approximately RMB133.3 million of the proceeds was used for the repayment of bank borrowings, and approximately RMB502.6 million of the proceeds was used for the development and expansion of the production facilities in Wuzhou. The proceeds were applied in accordance with the proposed applications set forth in the prospectus of the Company dated 30 September 2009.

The unutilized proceeds have been placed with licensed banks in Hong Kong and Mainland China as interest-bearing deposits as at 30 June 2011.

Human resources

As at 30 June 2011, the Group had 3,775 employees with a total remuneration of RMB58.5 million paid during the Period. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group’s constant expansion, it offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

Some of the Directors and senior management were granted share options under the Company’s share option scheme. The employee share option scheme has been put in place to incentivize employees, and to encourage them to work towards enhancing the value and promoting the long-term growth of the Group.

PROSPECTS

Looking ahead, the Group remains strongly optimistic towards the vast potentials of the collagen sausage casing market in the PRC. Although the recent issue surrounding meat quality in the PRC market may affect the confidence of the consumers on meat products, it is expected that the PRC economy will sustain its rapid growth in the second half of 2011 on consumption needs. Improving living standards and changing lifestyle of Chinese citizens will continue to drive the strong demand for processed meat products and substitution for natural sausage casings. Riding on its sound business foundation, the Group will endeavor to sustain its leading market position in the collagen sausage casings industry in an attempt to capture the growing business opportunities.

In the second half of 2011, the Group plans to add 50 production lines, increasing the total number of production lines to 220 and an annual production volume of approximately 3.6 to 3.8 billion meters. This will help the Group to launch new product types to satisfy market needs while enabling the Group to execute necessary maintenance of existing production lines. To cater for the need of production lines expansion, the Group will further expand the production capacity of its new collagen processing plant.

The Group will continue to diversify its product mix by developing new products of collagen casings in the second half of 2011 and expand the production of Muslim sausage casings by setting aside a total of 26 production lines with an aim to increase its overseas sales and for capture the rising demand from the overseas market. The reallocation of production lines is expected to increase the annualized production capacity of Islam sausage casings to 500 million meters. With the approval of relevant licenses by government authorities which is expected to be granted in the second half of 2011, or the first half of 2012, the Group looks forward to an increase in the sales of Muslim sausage casings which will be reflected in 2012. The Group aims to enhancing its market competitiveness through enriching its product portfolio. The Group is also well-prepared to tap into the Muslim market with its newly invented Muslim collagen sausage casings.

In addition, the Group will continue to enhance cost and quality control measures to cater for the increasing challenges on the market and prepare the Group for future business development. The Group will further increase its investment in the quality control centre for examination of raw materials to ensure the safety and quality of raw materials used in the production of the Group's collagen sausage casing products. The Group will endeavour to maintain its profitability through the enhancement of management and operation efficiency and achieving economies of scale. The Group is determined to maintain its leading brand position to create the maximum returns to customers and shareholders alike.

OTHER INFORMATION

Interim dividend

The Board resolved the payment of an interim dividend of HK4.3 cents per ordinary share in respect of the Period to shareholders on the register of members of the Company on 14 September 2011. It is expected that the interim dividend will be paid on or around 27 September 2011.

Closure of register of members

The register of members of the Company will be closed from Friday, 9 September 2011 to Wednesday, 14 September 2011 (both days inclusive) and during such period, no transfer of shares will be registered. To ensure the entitlement to the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 8 September 2011.

Purchase, redemption or sale of listed securities of the Company

During the Period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Bonus issue

On 13 May 2011, the Board resolved to recommend the bonus issue (the "Bonus Issue"), being a bonus issue of new shares on the basis of ten bonus shares (the "Bonus Shares") for every ten existing shares, to shareholders whose names appeared on the register of members of the Company on 15 June 2011 for approval by the shareholders at the extraordinary general meeting held on 15 June 2011 (the "EGM").

At the EGM, the shareholders approved the Bonus Issue. On 20 June 2011, a total of 1,661,060,000 Bonus Shares were issued and allotted. For details of the Bonus Issue, please refer to the announcements of the Company dated 13 May 2011 and 15 June 2011 and the circular of the Company dated 27 May 2011.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”)

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as the code of conduct for securities transactions carried out by the Directors. The Company had made specific enquiry to all Directors and all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Period.

Code on Corporate Governance Practices

Save as disclosed below, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, in any time during the Period in due compliance with the code provisions of the Code of Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Listing Rules.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. This deviates from the code provision A.2.1 of the Code.

Ms. Zhou Yaxian, who acts as 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 officer. 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 the code provision A.2.1 of the Code and will continue to consider the feasibility of appointing the chief executive officer.

Audit committee

The audit committee of the Company had reviewed the consolidated interim results of the Company for the six months ended 30 June 2011 and considered that the interim results had complied with all applicable accounting standards and the Listing Rules.

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

Hong Kong, 22 August 2011

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Ms. Cai Yueqing, Mr. Shi Guicheng and Mr. Ru Xiquan; the non-executive Director is Mr. Low Jee Keong; and the independent non-executive Directors are Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.