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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011 AND PROPOSED APPOINTMENT OF DIRECTOR

RESULTS HIGHLIGHTS

- Achieved revenue of RMB1,502.0 million, increased by 30.3% year-on-year
- Achieved profit attributable to owners of the Company of RMB689.3 million, increased by 34.3% year-on-year
- Resolved the payment of a final dividend of HK6.0 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 consolidated annual results of the Company and its subsidiaries (collectively, "Shenguan" or the "Group") for the year ended 31 December 2011 (the "Year" or the "Period"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The 2011 consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 19 March 2012.

During the Year, the demand for the products of the Group maintained healthy growth with breakthroughs. The revenue from the sales of the collagen sausage casings soared 30.3% to RMB1,502.0 million as compared to 2010. During the Year, profitability of the Group has improved. The profit attributable to owners of the Company was RMB689.3 million throughout the Year, representing a growth of 34.3% over 2010. The basic earnings per share attributable to owners of the Company was RMB20.7 cents. The Board is pleased to propose a final dividend of HK6.0 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 date of this announcement is RMB0.81260 to HK$1.00. Accordingly, the amount of final dividend per share equivalent to RMB4.8756 cents, together with the interim dividend of HK4.3 cents per share (equivalent to RMB3.5287 cents as stated in the interim results announcement dated 22 August 2011), represents a dividend payout ratio of approximately 40.5%.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	4	**1,501,985**	1,152,689
Cost of sales		**(571,709)**	(454,616)
Gross profit		**930,276**	698,073
Other income and gains	4	**62,578**	49,118
Selling and distribution costs		**(22,533)**	(14,595)
Administrative expenses		**(101,911)**	(68,026)
Finance costs, net	5	**(289)**	252
PROFIT BEFORE TAX	6	**868,121**	664,822
Income tax expense	7	**(163,490)**	(134,520)
PROFIT FOR THE YEAR		**704,631**	530,302
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(35,163)**	(26,762)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(35,163)**	(26,762)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**669,468**	503,540
Profit attributable to:			
Owners of the Company		**689,319**	513,458
Non-controlling interests		**15,312**	16,844
		704,631	530,302
Total comprehensive income attributable to:			
Owners of the Company		**654,156**	486,696
Non-controlling interests		**15,312**	16,844
		669,468	503,540
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	9		(Restated)
Basic (RMB cents per share)		**20.7**	15.5
Diluted (RMB cents per share)		**20.7**	15.4

Consolidated Statement of Financial Position

31 December 2011

	Notes	**2011** *RMB'000*	2010 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**922,526**	722,421
Prepaid land lease payments		**105,646**	107,732
Patent		**285**	1,144
Available-for-sale investment		**200**	200
Held-to-maturity investments		**50,403**	–
Deferred tax assets		**14,074**	8,790
Long term prepayments		**10,136**	16,343
Total non-current assets		**1,103,270**	856,630
CURRENT ASSETS			
Inventories		**182,342**	118,849
Trade and bills receivables	*10*	**166,226**	137,210
Prepayments, deposits and other receivables		**48,439**	97,364
Principal-protected investments		**50,000**	–
Held-to-maturity investments		**154,329**	201,965
Cash and cash equivalents		**487,789**	787,736
Total current assets		**1,089,125**	1,343,124
CURRENT LIABILITIES			
Trade payables	*11*	**52,434**	26,357
Other payables and accruals		**123,740**	119,631
Interest-bearing bank borrowings		**42,971**	–
Tax payable		**18,196**	31,800
Deferred income		**–**	3,305
Total current liabilities		**237,341**	181,093
NET CURRENT ASSETS		**851,784**	1,162,031
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,955,054**	2,018,661
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**20,000**	140,000
Deferred income		**28,952**	14,061
Deferred tax liabilities		**630**	–
Total non-current liabilities		**49,582**	154,061
Net assets		**1,905,472**	1,864,600

	Note	2011 RMB'000	2010 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**28,568**	14,633
Reserves		**1,876,904**	1,823,046
		1,905,472	1,837,679
Non-controlling interests		**–**	26,921
Total equity		**1,905,472**	1,864,600

Notes to Financial Statements

31 December 2011

1. Basis of Presentation

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. This financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2. Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on the Group.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date 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.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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. Segment Information

The Group is engaged in the principal business of the 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 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.

Information about geographical areas

Since over 90% of the Group's revenue is derived from customers based in the PRC and all the Group's identifiable assets and liabilities are located in the PRC, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

For the year ended 31 December 2011, revenue generated from a single (2010: single) customer of the Group amounting to RMB498,572,000 (2010: RMB467,377,000) has individually accounted for over 10% of the Group's total revenue.

4. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced goods sold after allowances for returns and trade discounts during the year.

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

	2011	2010
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,501,985**	1,152,689
Other income, net		
Bank interest income	**14,687**	14,048
Interest income from held-to-maturity investments	**7,967**	1,965
Sales of dried meat products	**737**	1,143
Rental income	**–**	5
Reversal of impairment of trade and other receivables, net	**–**	3,181
Government grants	**6,924**	4,144
Others	**316**	556
	30,631	25,042
Gains		
Foreign exchange gains, net	**31,924**	24,076
Gain on disposal of financial asset through profit or loss	**23**	–
	31,947	24,076
	62,578	49,118

5. Finance Costs

	2011	2010
	RMB'000	*RMB'000*
Interest on bank loans	**3,594**	7,443
Less: Government grants	**(3,305)**	(7,695)
	289	(252)

6. Profit Before Tax

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

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories sold	**217,719**	168,288
Depreciation	**42,687**	31,808
Amortisation of a patent	**859**	859
Amortisation of land lease payments	**2,086**	1,216

7. Income Tax

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 are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2011.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") being the Company's wholly-owned subsidiary, is located in Wuzhou, Guangxi in the Western Region of China and is subject to the region's preferential corporate income tax ("CIT") rate of 15% as set out in the Circular on Issues Concerning Preferential Tax Policies for the Development of Western Regions (Cai Shui 2001 No. 202).

	2011	2010
	RMB'000	*RMB'000*
Group:		
Current tax charge for the year		
– PRC	**166,031**	132,622
Underprovision/(overprovision) in prior year	**2,113**	(1,575)
Deferred tax	**(4,654)**	3,473
Total tax charge for the year	**163,490**	134,520

8. Dividends

	2011	2010
	RMB'000	*RMB'000*
Interim dividend		
– HK4.3 cents (2010: HK3.0 cents, as restated) per ordinary share	**117,560**	85,841
Final dividend proposed subsequent to the reporting period		
– HK6.0 cents (2010: HK4.0 cents, as restated) per ordinary share	**161,973**	113,079
Special dividend		
– Nil (2010: HK1.0 cent, as restated) per ordinary share	**–**	27,955
	279,533	226,875

The final dividend proposed subsequent to the reporting period has not been recognised as a liability at the end of the reporting period and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

9. Earnings Per Share Attributable to Ordinary Owners of the Company

The calculation of basic earnings per share amount for the year ended 31 December 2011 is based on the profit for the year attributable to ordinary owners of the Company of RMB689,319,000 (2010: RMB513,458,000), and the weighted average number of ordinary shares of 3,322,120,000 (2010: 3,320,372,000, as restated) in issue during the year ended 31 December 2011, as adjusted to reflect the bonus issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 December 2011 is based on the profit for the year attributable to ordinary owners of the Company of RMB689,319,000 (2010: RMB513,458,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2011, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 4,527,000 (2010: 5,252,000, as restated) assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares, as adjusted for the bonus issue during the year.

The weighted average numbers of ordinary shares for the years ended 31 December 2011 and 2010 have been retrospectively adjusted for the bonus issue which took place on 20 June 2011.

10. Trade and Bills Receivables

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**121,236**	138,527
Bills receivable	**49,471**	3,000
Due from a related company	**649**	665
Less: Impairment	**(5,130)**	(4,982)
	166,226	137,210

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. The Group seeks to maintain strict control over its outstanding receivables and has a credit policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group has provided impairment loss on trade receivables based on past experience of collecting payments. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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:

	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**146,573**	132,686
3 to 4 months	**11,354**	1,260
Over 4 months	**8,299**	3,264
	166,226	137,210

Due from a related company:

	2011	2010
	RMB'000	*RMB'000*
LJK Frozen SDN. BHD. ("LJK") (formerly known as Exceltech Enterprise SDN. BHD.)	**649**	665

LJK is controlled by Mr. Low Jee Keong, a Director. The amount due from LJK is unsecured, non-interest-bearing and has a repayment term of 60 days, which is on terms similar to those offered to other major customers of the Group.

11. Trade Payables

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

	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**37,298**	20,433
1 to 2 months	**8,962**	1,976
2 to 3 months	**1,582**	697
Over 3 months	**4,592**	3,251
	52,434	26,357

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

12. Shares

	2011	2010
	HK$000	*HK$000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,322,120,000 (2010: 1,661,060,000) ordinary shares of HK$0.01 each	**33,221**	16,611
Equivalent to RMB'000	**28,568**	14,633

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

The year of 2011 marks the first year of the Twelfth Five Year Plan of China, which rolls out the main policy directions for further reform and development in the next five years. The global business environment remained challenging as the financial crises in Europe and the United States have added to the complexity of the global economic scene. Meanwhile, the PRC was able to sustain stable and relatively faster growth, with a price level that remains stable. The robust economic growth in the PRC contributed to the rise in the consumption power of its people. According to the preliminary figures of the National Bureau of Statistics, the 2011 GDP of the PRC was approximately RMB47,156.4 billion, growing approximately 9.2% year-on-year. The annual per capita disposable income of urban residents was RMB21,810 and the annual per capita net income of rural residents was RMB6,977.

Stimulated by the continual expansion of the PRC economy and improved living standards 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 fresh meat, which has seen rising pressure in selling price, with processed meat products. In the sausage casing business, the market penetration rate of collagen sausage casing products was far lower than that in other developed countries, indicating huge market potential. With its technological know-how, Shenguan is poised to benefit from opportunities in the vast market in the PRC.

Although rising concerns over food safety of meat products across the nation briefly affected the demand for fresh and processed meat products, the demand for the Group's collagen sausage casings remained strong and helped to boost its sales. Also, the growing demand from other industry players quickly offset the temporary decline in demand from major players.

During the Year, the Group continued to make progress in areas such as production capabilities, technology development and internal management, while overcoming challenging factors such as Renminbi appreciation, rising raw materials prices, and the relocation of collagen processing plant, which successfully laid a solid foundation for future development.

For the Year, revenue of the Group increased by 30.3% to RMB1,502.0 million from RMB1,152.7 million in 2010. Profit attributable to owners of the Company rose 34.3% to RMB689.3 million from RMB513.5 million in 2010.

The Board recommends the payment of a final dividend for the Year of HK6.0 cents per share (restated 2010: HK4.0 cents) but not recommends any special dividend for the Year (restated 2010: HK1.0 cent).

Product Mix

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

The Group obtained a license in October 2010 to produce Muslim sausage casings, a new collagen sausage casing product tailor-made for Muslims in the PRC, with the aim of diversifying its product portfolio, exploring new market opportunities and increasing market share in the collagen sausage casings industry. This new type of collagen sausage casings is currently sold locally within the PRC market, and is expected to be launched for sale overseas in 2012 upon receiving relevant authority permission.

During the Year, the Group offered different sizes of collagen sausage casing products, with diameters ranging from 13 mm to 50 mm. Mainland China remained the major market of the Group's products with over 96% of the sausage casings manufactured by the Group sold to sausage manufacturers in the PRC, while the remaining products were 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 inner skin has remained stable in the past few years.

With 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 skin in the future. During the Year, the cost of raw materials was RMB234.7 million (2010: RMB199.0 million), accounting for 41.0% of the total cost of sales.

Cost Control

It was a challenging year for the Group amidst growing cost pressure as a result of a combination of inflation, appreciation of Renminbi against other currencies and rising labor costs in 2011. Owing to the above factors, the Group dedicated efforts in enhancing the efficiency of existing production lines in the hope of coping with rising market demand, optimizing its energy-saving facilities for cost-saving and leveraging on its R&D (as defined below) expertise to enrich product portfolio and maintain profitability. Meanwhile, the Group strengthened its centralized procurement management to reduce procurement costs, and to increase the benefits of economies of scale. Gross profit margin increased to 61.9% in 2011 from 60.6% in 2010.

Production Capacity

During the Year, the Group increased its investment in order to expand its production capacity in light of the rapidly growing demand for collagen sausage casings.

As at 31 December 2011, the Group owned three production plants at Wuzhou with 190 production lines in operation. The Group originally planned to add 50 new production lines in the Wangfu production base. However, owing to the inadequate energy supply resulted from transformer overloading in the industrial zone, 30 out of the 50 planned production lines were therefore relocated to the Sifu production base, resulting in a delay in the project timetable. Out of the 30 production lines, the setup of 16 production lines was completed in March 2012, increasing the total number of production lines of the Group to 206 by the date of this announcement. The remaining 14 production lines are expected to be completed in April 2012.

For the Year, the weighted average capacity calculated by the operating time of the production lines (the production lines set aside for Muslim sausage casings inclusive) was 3,808.0 million meters and the actual production volume was approximately 3,551.4 million meters for the Year.

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 a land area of approximately 350,000 sq. m. in the Sifu production base with a construction area of approximately 110,000 sq. m. During the Year, the Group continued to move its 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 the 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 stage of the R&D process for new sausage products. The Group believes that strong R&D is the core of its success. In particular, patented technologies are the key to differentiate the Group from its peers and raise the entry barriers for competitors to enter the market. The Group will continue optimizing its production technology in order to reduce production costs. During the Year, the R&D expenses amounted to RMB158.5 million (2010: RMB87.1 million).

As at 31 December 2011, the Group had registered two trademarks and 24 patents with the State Intellectual Property Office, with another nine patents being accepted for application and approval for these patents are pending.

Quality Control

Quality control is another core competitive strengths of the Group. In order to produce high quality standard products for its customers, the Group undertakes strict quality control over every single production process. During the Year, the Group passed the ISO9001: 2008 Quality Management System and ISO22000: 2005 Food Safety Management System annual review for its quality control, and has obtained the FDA registration for the export of products to the United States. In addition, all of the Group's 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 response to the rising standards of the food industry, the Group has exerted greater effort in the safety and quality control of its products. The Group has invested approximately RMB10.6 million for the establishment of an examination center for the assessment of raw materials and finished goods. In 2011, the Group installed new and advanced inspection and testing facilities, expanded the technology center in order to reinforce both the technology and examination centers at the same time. Currently, the examination centre can detect, including but not only, pesticide residues, drug residues and heavy metals.

Customer Relationship

The Group provides tailor-made collagen sausage casing products (in different types and sizes) to fulfill customer needs, and is typically involved in the early stages of the R&D process for new sausage products. Over the years, the Group has established a long-term relationship with the leading manufacturers of processed meat products and sausages in the PRC. During the Year, 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 185.1% as compared to 2010. During the Year, the Group continued to supply high quality sausage casing products to a number of renowned food product suppliers in the PRC.

Energy saving

The Group adopted and optimized the heat energy technology and the use of energy was greatly reduced. Technological innovation has been the Group's source of motivation in its course of development. The Group achieved ground-breaking development in energy saving technology and is listed as 2012 Guangxi 100 Billion Dollars Key Project in Technological Industry (廣西2012年千億元產業重大科技攻關項目). The Group achieved a satisfactory result by replacing steam boilers with the heat energy technology in the drying process of all production lines. Riding on this initial success, the Group constantly carried out further improvement on the heat energy technology, demonstrating a more significant energy-saving result. Energy consumption efficiency continued to improve and achieved cost savings. Energy cost for the Year was approximately RMB138.1 million, up by 33.2% as compared to the same period last year. Such increase was similar to the Group's product volume growth and business expansion during the Year. The new energy-saving technology substituted coal with electricity, which the Group believed would reduce exhaust emissions to achieve protection to the environment.

Financial Analysis

Revenue

The Group's revenue increased by 30.3% from RMB1,152.7 million in 2010 to RMB1,502.0 million in 2011, driven by the significant growth in the sales of Western-style collagen sausage casings. During the Year, the aggregate volume of sausage casings sold by the Group was 3,385.1 million meters.

The increase in sales of 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 25.8% from RMB454.6 million in 2010 to RMB571.7 million in 2011. 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 RMB35.7 million due to increased production volume; (ii) water, electricity and coal expenses increased by RMB34.4 million; and (iii) the direct labor expenses increased by RMB29.2 million, as the Group hired more workers and annually reviewed their remuneration to support its operations. During the Year, the aggregate amount of sausage casings produced by the Group was 3,551.4 million meters and the Group had maintained an equipment utilization rate of 93.3%.

Gross profit

Gross profit increased by 33.3% from RMB698.1 million in 2010 to RMB930.3 million in 2011. Due to 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 gross profit margin of the Group increased from 60.6% in 2010 to 61.9% in 2011.

Other income and gains

Other income and gains increased significantly from RMB49.1 million in 2010 to RMB62.6 million in 2011, which was mainly attributable to the increase in interest income from bank deposit and PRC government treasury bonds.

Selling and distribution costs

Selling and distribution costs increased by 54.4% from RMB14.6 million in 2010 to RMB22.5 million in 2011. Selling and distribution costs accounted for 1.3% of the revenue in 2010 and 1.5% of the revenue in 2011. The increase in selling and distribution expenses was mainly due to the increase in transportation expenses from RMB8.0 million in 2010 to RMB11.1 million in 2011.

Administrative expenses

Administrative expenses increased by 49.8% from RMB68.0 million in 2010 to RMB101.9 million in 2011. The increase in administrative expenses was mainly caused by the increase in staff salary and expense in staff 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 Company'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. In addition, the Group had incurred a total of RMB19.0 million for the City Construction Tax, Education Surcharge and Local Education Surcharge in the PRC during the Year. The City Construction Tax, Education Surcharge and Local Education Surcharge were newly introduced in the PRC in December 2010.

Finance costs

Finance costs decreased from a net gain of RMB252,000 in 2010 to a net charge of RMB289,000 in 2011. Interest on bank loans of RMB3.6 million incurred was offset by the government grants of RMB3.3 million received during the Year.

Income tax expenses

Income tax expenses were RMB163.5 million in 2011, as compared to RMB134.5 million in 2010. 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 20.2% and 18.8% to the profit before tax in 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 by Wuzhou Shenguan to its holding companies established in Hong Kong.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests decreased by 9.1% from RMB16.8 million in 2010 to RMB15.3 million in 2011. Despite the increase in profit after tax, the Group acquried 3% non-controlling interest in Wuzhou Shenguan during the Year. As a result, profit attributable to non-controlling interests decreased.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 34.3% from RMB513.5 million in 2010 to RMB689.3 million in 2011. The Group's net profit margin attributable to owners of the Company increased from 44.5% in 2010 to 45.9% in 2011.

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 31 December 2011, the cash and cash equivalents amounted to RMB487.8 million, representing a decrease of RMB299.9 million as compared to the end of 2010. Among the cash and bank deposits balance, 97.6% were denominated in Renminbi and the remaining 2.4% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2011, the total liabilities of the Group amounted to RMB286.9 million (31 December 2010: RMB335.2 million), of which RMB20.0 million was long-term bank borrowings due in the second to third years, inclusive. As at 31 December 2011, the Group had short-term bank borrowings of RMB43.0 million due within one year. All of the Group's bank borrowings were subject to interest rates currently ranging from 7.32% to 8.90% per annum and were denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB424.8 million as at 31 December 2011, together with held-to-maturity investments of RMB204.7 million. The debt-to-equity ratio was 3.3% as at 31 December 2011 (31 December 2010: 7.5%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

In 2011, RMB696.6 million and RMB206.2 million were generated from the operating activities and investing activities respectively, while the net amount spent on financing activities was RMB717.4 million. Net cash inflows from investing activities were mainly related to the decrease in non-pledged time deposits with original maturity of more than three months when acquired which was offset by the expansion of production facilities, purchase of property, plant and equipment and net purchase of principal-protected investments of RMB50.0 million. Non-pledged time deposits with original maturity of more than three months when acquired amounted to RMB50.3 million as at 31 December 2011. Net cash outflows from financing activities were mainly related to the distribution of a final dividend for 2010 and an interim dividend for the six months ended 30 June 2011 by the Company, bank loans borrowed and repaid, and the acquisition of non-controlling interests.

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 in 2011 amounted to RMB235.3 million and capital commitments as at 31 December 2011 amounted to RMB261.4 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production facilities.

For 2012, the Company has budgeted to spend around RMB300 million to 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 and the upgrading of production technology.

Pledge of assets

As at 31 December 2011, the Group's short term bank borrowings are secured by bills receivables of RMB42,971,000.

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 31 December 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 RMB628.7 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 the PRC as interest bearing deposits as at 31 December 2011.

Contingent liabilities

As at 31 December 2011 and up to the date of this announcement, the Group was not aware of any material contingent liabilities.

Acquisitions, Disposals and Significant Investment

On 4 March 2011, 11 March 2011 and 10 November 2011, the Group (through Wuzhou Shenguan) acquired the 3.45% one-year term certificate treasury bonds and 5.58% three-years term certificate treasury bonds issued by the Ministry of Finance of the PRC in the aggregate principle amount of RMB110,000,000, RMB40,000,000 and RMB50,000,000, respectively. For details of the treasury bonds acquisitions, please refer to the announcements of the Company dated 4 March 2011, 13 March 2011 and 10 November 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 (梧州先盛膠原蛋白技術諮詢服務有限公司) ("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. All conditions under the Agreement had been fulfilled and the transactions under the Agreement had been completed as at the date of this announcement. 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.

Human resources

As at 31 December 2011, the Group had approximately 3,500 employees with a total remuneration of RMB135.5 million paid during the Year. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, the Group 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 in 2009. 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.

Bonus Issue

On 13 May 2011, the Board resolved to recommend a bonus issue (the "Bonus Issue"), being a bonus issue of new shares on the basis of ten bonus shares for every ten existing shares, to the shareholders whose names appear on the register of members of the Company on 15 June 2011. The Bonus Issue was approved at the extraordinary general meeting held on 15 June 2011 and was completed during the Year. An amount of HK$16,610,600 standing to the credit of the share premium account of the Company had been capitalised and applied in making payment in full, at par value, for the 1,661,060,000 bonus shares issued under the Bonus Issue. 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.

Prospects

Looking ahead, the Group remains strongly optimistic towards the vast potential of the collagen sausage casing market in the PRC. Although consumer confidence on meat products might be hurt in the short term following recent incidents on meat quality in the PRC market, it is expected that confidence will return, along with the sustained rapid growth of the PRC economy and consumption needs in 2012. Improving living standards and changing lifestyle of the PRC urban population 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 growing business opportunities.

In 2012, the Group plans to increase the production capacity by 20%-25% with a similar utilization rate as 2011. While focusing on newly added production lines, the Group will also expand the collagen processing plant of Sifu and cold storage facilities.

The Group will continue to capitalize on the advantage it has built on technological innovation. In 2012, the Group will speed up product development, improve and perfect the workmanship in the production process to meet market demand. With the approval of relevant licenses by government authorities expected to be granted in 2012, the Group is positioned to officially export Muslim sausage casings to overseas markets in 2012 and the contributions will be gradually reflected. The Group aims to enhance its market competitiveness through enriching its product portfolio. Meanwhile, the Group will strengthen the management of its automation process, and the research and development for the mechanization of production equipment. The Group will also strengthen the innovation capabilities of its technology center and examination center and increase protection of intellectual property.

As a member of the food industry, the Group sees stable product quality as its prime task and seeks to provide a stable and enhanced product quality through continual upgrade of its standards and benchmarks in key control points of its production process and stringent production controls. The Group dedicated to assure its customers of high quality sausage casings products.

As its business expands, the Group will continue to expand its operations with collagen sausage casing products as its core business so as to maintain its leading position to create maximum returns to its customers and shareholders.

OTHER INFORMATION

Dividends

The Board recommended the payment of a final dividend of HK6.0 cents per ordinary share in respect of the Year to the shareholders whose names appear on the register of members of the Company on 24 May 2012. Subject to the approval by the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 5 June 2012.

Closure of register of members

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 16 May 2012 (Wednesday), the register of members of the Company will be closed from 11 May 2012 (Friday) to 16 May 2012 (Wednesday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 10 May 2012 (Thursday). For determining entitlement to the final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 22 May 2012 (Tuesday) to 24 May 2012 (Thursday), both dates inclusive. The record date will be 24 May 2012. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 21 May 2012 (Monday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the coming annual general meeting, and to qualify for the final dividend (if approved at the forthcoming annual general meeting), 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 the dates and times stated above respectively.

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 Year.

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 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 Year.

Code on Corporate Governance Practices

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules. During the Year, the Company has complied with the code provisions of the Code, save for the following:

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.

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 and will continue to consider the feasibility of appointing the chief executive officer.

Audit committee

The audit committee of the Board had reviewed the consolidated annual results of the Company for the Year and considered that the Company had complied with all applicable laws, accounting standards and requirements, and had made adequate disclosure.

Proposed Appointment of Director

The Board resolved to propose Mr. Mo Yunxi ("Mr. Mo") to be appointed as an executive Director which is subject to approval of the shareholders of the Company at the annual general meeting of the Company to be convened on 16 May 2012.

The biographical details of Mr. Mo are as follows:

Mr. Mo, aged 43, is primarily responsible for the Group's product and technology developments. He has long been engaged in product development and has nearly 19 years of experience in the collagen sausage casing industry. Mr. Mo graduated from Tianjin College of Commerce (天津商學院), majoring in Food Engineering in July 1990. Mr. Mo joined Wuzhou Protein Factory in 1993 and he has been the Deputy General Manager of Wuzhou Shenguan since 2004. Mr. Mo is a senior engineer in food engineering. He was awarded the "First Prize in Wuzhou Science and Technology Advancement" (梧州市科學技術進步一等獎) and the "First Prize in Guangxi Outstanding Achievement on New Products" (廣西新產品優秀成果一等獎) by the Wuzhou Government and The People's Government of Guangxi, respectively, in 2008.

Further details of the proposed appointment of Director will be set out in the circular of the Company in relation to, among other matters, the notice of annual general meeting to be dispatched to the shareholders of the Company.

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

Hong Kong, 19 March 2012

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.