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 2012 ANNOUNCEMENT

RESULTS HIGHLIGHTS

- Achieved revenue of RMB692.3 million, increased by 14.6% year over year
- Achieved profit attributable to owners of the Company of RMB312.7 million, increased by 2.5% year over year
- Cash inflow from operation reached RMB280.7 million, increased by 57.6% year over year
- Resolved the payment of an interim dividend of HK4.5 cents per share and a special dividend of HK1.0 cent 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 2012 (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 2012 consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 20 August 2012.

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 increased by 14.6% to RMB692.3 million as compared to the corresponding period in 2011. During the Period, despite the slow down of China's economy and high inflation rate, profitability of the Group was slightly improved. The profit attributable to owners of the Company was RMB312.7 million throughout the Period, representing a growth of 2.5% over the same period in 2011. The basic earnings per share attributable to owners of the Company was RMB9.41 cents. The Board resolved the payment of an interim dividend of HK4.5 cents per share and a special dividend of HK1.0 cent 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 RMB0.81838 to HK$1.00. Accordingly, the aggregate amount of interim dividend per share and special dividend per share equivalent to RMB4.5011 cents, representing a dividend payout ratio of 47.9%.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
REVENUE	4	**692,252**	604,168
Cost of sales		**(276,534)**	(218,527)
Gross profit		**415,718**	385,641
Other income and gains	4	**18,175**	32,819
Selling and distribution costs		**(7,711)**	(7,445)
Administrative expenses		**(36,785)**	(28,610)
Finance costs	5	**2,444**	487
PROFIT BEFORE TAX	6	**391,841**	382,892
Income tax expense	7	**(79,158)**	(67,942)
PROFIT FOR THE PERIOD		**312,683**	314,950
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations		**47**	(16,322)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**47**	(16,322)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**312,730**	298,628
Profit attributable to:			
Owners of the Company		**312,683**	305,155
Non-controlling interests		**–**	9,795
		312,683	314,950

	Note	Six months ended 30 June **2012** (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Total comprehensive income attributable to:			
Owners of the Company		**312,730**	288,833
Non-controlling interests		**–**	9,795
		312,730	298,628
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		
Basic (RMB cents per share)		**9.41**	9.19
Diluted (RMB cents per share)		**9.40**	9.17

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	**30 June 2012 (Unaudited) RMB'000**	31 December 2011 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,080,543**	922,526
Prepaid land lease payments		**104,634**	105,646
Patent		**–**	285
Available-for-sale investment		**200**	200
Held-to-maturity investment		**51,411**	50,403
Deferred tax assets		**10,465**	14,074
Long term prepayments		**45,728**	10,136
Total non-current assets		**1,292,981**	1,103,270
CURRENT ASSETS			
Inventories		**239,253**	182,342
Trade and bills receivables	10	**121,248**	166,226
Prepayments, deposits and other receivables		**72,763**	48,439
Principal-protected investments		**–**	50,000
Held-to-maturity investments		**–**	154,329
Cash and cash equivalents		**823,067**	487,789
Total current assets		**1,256,331**	1,089,125
CURRENT LIABILITIES			
Trade and bills payables	11	**45,003**	52,434
Other payables and accruals		**172,498**	123,740
Interest-bearing bank borrowings		**164,440**	42,971
Tax payable		**3,749**	18,196
Total current liabilities		**385,690**	237,341
NET CURRENT ASSETS		**870,641**	851,784
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,163,622**	1,955,054

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**65,000**	20,000
Deferred income	**37,060**	28,952
Deferred tax liabilities	**1,080**	630
Total non-current liabilities	**103,140**	49,582
Net assets	**2,060,482**	1,905,472
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**28,584**	28,568
Reserves	**2,031,898**	1,876,904
Total equity	**2,060,482**	1,905,472

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2012

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 2011.

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 2011 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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Asset*

The adoption of these new standard 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.

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.

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	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of goods	**692,252**	604,168
Other income and gains		
Bank interest income	**2,719**	6,284
Interest income from held-to-maturity investments	**2,257**	4,220
Gain on disposal of financial assets at fair value through profit or loss	**10,535**	–
Foreign exchange gains, net	**–**	17,217
Government grants	**2,169**	4,173
Sales of dried meat products	**162**	694
Others	**333**	231
	18,175	32,819

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	**1,676**	2,818
Less: Government grants	**(3,000)**	(3,305)
Interest capitalised	**(1,120)**	–
	(2,444)	(487)

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**24,924**	20,664
Amortisation of patent	**285**	429
Amortisation of prepaid land lease payments	**1,012**	1,074

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax charge for the period		
– Mainland China	**75,549**	54,085
Deferred tax	**3,609**	13,857
Total tax charge for the period	**79,158**	67,942

8. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividends declared and paid for 2011 – HK6.0 cents (2010: HK4.0 cents) per ordinary share	**161,973**	113,079
Special dividends declared and paid for 2010 – HK1.0 cent per ordinary share	**–**	27,955
	161,973	141,034

Subsequent to the reporting period, the directors resolved the payment of an interim dividend of HK4.5 cents (2011: HK4.3 cents) per ordinary share and a special dividend of HK1.0 cent (2011: Nil) per ordinary share.

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 basic earnings per share amount for the period ended 30 June 2012 is based on the profit for the period attributable to owners of the Company of RMB312,683,000 (six months ended 30 June 2011: RMB305,155,000), and the weighted average number of ordinary shares of 3,322,395,000 (six months ended 30 June 2011: 3,322,120,000, as retrospectively adjusted to reflect the bonus issue which took place on 20 June 2011) in issue during the period ended 30 June 2012.

The calculation of diluted earnings per share amount for the period ended 30 June 2012 is based on the profit for the period attributable to ordinary owners of the Company of RMB312,683,000 (six months ended 30 June 2011: RMB305,155,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period ended 30 June 2012, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 4,438,000 (six months ended 30 June 2011: 4,906,000, as retrospectively adjusted to reflect the bonus issue which took place on 20 June 2011) assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 3 months	**94,142**	146,573
3 to 4 months	**9,078**	11,354
Over 4 months	**18,028**	8,299
	121,248	166,226

11. TRADE AND BILL PAYABLES

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 1 month	**28,905**	37,298
1 to 2 months	**6,236**	8,962
2 to 3 months	**3,518**	1,582
Over 3 months	**6,344**	4,592
	45,003	52,434

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

China's economy continued to slow down as the worsening European sovereign debt crisis and stalling economic recovery in the United States have severely hit the export sector and international trade. Domestic consumption was stably growing and became the major driver of Chinese economic growth, which was 7.8% growth in the first half of 2012, slightly higher than the full year target of 7.5%. The per capita disposable income of urban residents and the per capita net income of rural residents rose year-on-year by 9.7% and 12.4% respectively to RMB12,509 and RMB4,303. The sustained economic growth and accelerating urbanization were the major factors boosting the purchasing power of consumers.

China's food industry development in the first half of 2012 was characterized by incidents relating to food safety, sending ripples through the meat industry. In particular, the gelatine incident came to light in April this year also temporarily had indirect impact on the sales of collagen products in the second quarter of the year. As a result, consumers paid more attention in choosing safe food products and food manufacturers placed more emphasis on seeking reliable suppliers. However, the meat products market remained strong as rising income and improving living standard continued to fuel the demand. The policies laid out in the Twelfth Five Year Plan targeting to improve the overall food industry also support the meat product sector, benefiting processed meat products in the future. This drives the rapid expansion of the market of sausage casing products. The lower market penetration rate of collagen sausage casing products in China as compared to developed countries also implies huge market potential.

In view of the rising market demand in China, the Group continued to invest in new production capacity, bringing to the market additional supply of collagen sausage casing products, which in turn drove the growth of the Group's income, underpinning the stability of its profitability.

Revenue of the Group increased by 14.6% to RMB692.3 million for the six months ended 30 June 2012 (the "Period"), from RMB604.2 million for the same period last year. The gelatine incident in the PRC has aroused much public concerns regarding the safety of collagen products, which also indirectly affected the sales of the Group's collagen casings in May and June 2012. For this issue, the Group's examination center had served a positive function. The group had invested over RMB30 million in the past to build this examination center, which was equipped with the most sophisticated examination instruments among the food production industry in Guangxi. This examination center had strictly executed the inward raw materials examination and the outward finished goods examination in the production procedure. In addition, the Group's production has also strictly complied with the European Union standards, PRC national standards, sausage casing industry standards and corporate standards. As a result, sales growth gradually picked up in July 2012 after the Group confirmed that its products had passed all the relevant tests and quality checks. Profit attributable to owners of the Company rose by 2.5% to RMB312.7 million for the Period from RMB305.2 million in the same period in 2011. Profit attributable to owners of the Company excluding foreign exchange differences rose by 9.0% to RMB314.7 million for the Period from RMB288.6 million in the same period in 2011. Basic earnings per share of the Group were RMB9.41 cents for the Period.

The Board resolved the payment of an interim dividend of HK4.5 cents per share (1H2011: HK4.3 cents) and a special dividend of HK1.0 cent per share (1H2011: Nil).

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. The rising demand for sausages, in particular, low temperature sausages, and the diversification of ingredients used in sausage products in the PRC market were key drivers of the market in the first half of 2012.

The Group's efforts in diversifying its product portfolio began to pay off as its Muslim sausage casing products obtained the licenses for selling locally within the PRC in 2011 and also in the overseas market in the first half of 2012. This product is currently available mainly in the PRC market. It is expected that sales revenue of Muslim sausage casings will gradually become one of our major revenue contributors in the long run.

During the Period, the Group offered different sizes of collagen sausage casing products, with diameters ranging from 13mm to 50mm. By sales revenue, over 93.6% of the products were sold to the sausage manufacturers in the PRC, our major market, with the remaining 6.4% 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 skins in the future.

Cost Control

The Group is committed to cost control and has continued to enhance efficiency of existing production lines and optimize its energy-saving facilities. Such efforts enable the Group to partially offset the impact of energy and labor cost inflation seen in the first half of 2012 and the increase in factory overhead expenses for the same period. The Group leveraged on its research and development (R&D) ability to enrich its product portfolio and boost profitability. The Group also strengthened its centralized procurement management to reduce procurement costs and benefit from economies of scales. The Group's gross profit margin decreased slightly from 63.8% for the first half of 2011 to 60.1% for the Period.

Production Capacity

During the first half of 2012, the Group continued to expand production capacity to satisfy the growing demand for collagen sausage casing products.

In June 2012, the Group's Guangxi Wangfu production base was completed. The completion of this production base not only increased the production capacity but also greatly enhanced efficiency. As at 30 June 2012, the Group owned three production plants in Wuzhou of Guangxi Province.

To serve the rapidly growing production volume, the Group also invested to increase its collagen processing plant capacity. During the Period, the Group continued to move its collagen extraction facilities in Sifu production base into the new collagen processing plant from the old Fudian production base. The relocation further strengthened the Group's collagen extraction efficiency and improved the quality of the extracted collagen. In addition, the Group enhanced production lines in the old Fudian production base and added new automatic facilities to improve production efficiency.

Technological Research and Development

The Group considers its commitment to innovative technologies and new products as one of its core competitive strengths. The Group is involved in the preliminary stages of the R&D process for new sausage products and produces tailor-made products according to specific customer preferences. The Group believes that such strong R&D commitment and capability are the core of its success.

As at 30 June 2012, the Group had registered 2 trademarks and 25 patents in the PRC, with another 8 patents being accepted for application and their approval is pending. These patented technologies enables the Group to differentiate from its peers and are the key to raise the entry barriers for competitors to enter the market. The Group will continue to optimize its production technology in order to reduce production costs. During the Period, the R&D expenses amounted to RMB44.7 million (1H2011: RMB102.6 million).

Quality Control

Quality control is the core competitive strength of the Group. This is particularly important with rising consumer concerns over food safety. The Group undertakes strict quality control over every single production process and ensures its products are at their optimal quality and all the safety requirements are satisfied before they are delivered to customers.

The Group has passed the Assessment of ISO9001: 2008 Quality Management System and ISO22000:2005 Food Safety Management System, and has obtained the QS Food Production License and the Food and Drug Administration (FDA) registration for the export of products to the United States. In addition, the production of all of its products have strictly complied with the European Union standards (Regulation (EC) No. 853/2004), PRC national standards (GB14967-94), industry standards (SB/T10373-2004) and corporate standards (Q/WZSG0001S–2012), which has already been put on record. All these recognitions enable the Group to become a trustworthy product supplier for its customers.

The examination center for the assessment of raw materials and finished goods continued to operate efficiently to ensure product safety and quality. The Group also installed new and advanced inspection and testing facilities, and expanded the technology and examination centers at the same time. Currently, the examination centre can detect, including but not limited to, toxic materials such as pesticide residues, drug residues and heavy metals, etc.

Customer Relationship

The Group is committed to developing long-term relationship with its business partners. Over the years, the Group has established a closely-knit network of leading manufacturers of processed meat products and sausages, not only in the PRC, but also in various oversea markets such as South America, Southeast Asia, the United States and Europe. During the Period, the Group received orders from various overseas markets, among which orders from customers of Southeast Asia increased by 15% as compared to the same period in 2011.

Energy Saving

The Group adopted and optimized the heat energy technology and the energy use was greatly reduced. Technological innovation has been the Group's key drive of motivation in its course of development. The Group achieved ground-breaking development in energy saving technology and was listed among 2012 Guangxi RMB100 Billion Key Projects 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 continued to further improves its heat energy technology, resulting in greater energy-saving. Energy consumption efficiency continued to improve and partially offset the rising energy and labor costs of the Group.

FINANCIAL ANALYSIS

Revenue

The Group's revenue increased by 14.6% from RMB604.2 million for the six months ended 30 June 2011 to RMB692.3 million for the Period, driven by the significant growth in the sales of western-style collagen sausage casings.

The increase in sales of products was principally a result of (i) the 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 in market demand.

Cost of sales

Cost of sales increased by 26.5% from RMB218.5 million for the six months ended 30 June 2011 to RMB276.5 million for the Period. The increase was driven by the following factors: (i) the cost of raw materials increased by RMB35.1 million due to increased production volume; (ii) water, electricity and coal expenses increased by RMB14.1 million; and (iii) the direct labor expenses increased by RMB8.1 million as the Group hired more workers and annually reviewed their remuneration to support its operations.

Gross profit

Gross profit increased by 7.8% from RMB385.6 million for the six months ended 30 June 2011 to RMB415.7 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 gross profit margin of the Group decreased from 63.8% for the same period in last year to 60.1% for the Period.

Other income and gains

Other income and gains decreased by 44.5% from RMB32.8 million for the six months ended 30 June 2011 to RMB18.2 million for the Period. For the six months ended 30 June 2011, the Group recorded a foreign exchange gains of RMB17.2 million resulted from the appreciation of Renminbi. During the Period, the Group recorded a foreign exchange losses of RMB2.0 million in administrative expenses.

Selling and distribution costs

Selling and distribution expenses increased by 4.1% from RMB7.4 million for the six months ended 30 June 2011 to RMB7.7 million for the Period. Selling and distribution expenses accounted for 1.2% of the revenue for the six months ended 30 June 2011 and 1.1% of the revenue for the Period.

Administrative expenses

Administrative expenses increased by 28.7% from RMB28.6 million for the six months ended 30 June 2011 to RMB36.8 million for the Period. The increase in administrative expenses was mainly caused by the increase in City Construction Tax, Education Surcharge and Local Education Surcharge in the PRC and the increase in staff salary and expense in staff benefit during the Period.

Finance costs

Finance costs decreased from a credit of RMB0.5 million for the six months ended 30 June 2011 to a credit of RMB2.4 million for the Period. The decrease was due to the grant of a government subsidy of RMB3.0 million and an interest capitalisation of RMB1.1 million which offset the interest on bank loans of RMB1.7 million.

Income tax expenses

Income tax expenses were RMB67.9 million for the six months ended 30 June 2011, as compared to RMB79.2 million for the Period. 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"), 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 17.7% and 20.2% to the profit before tax for the six months ended 30 June 2011 and 2012, 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 decreased from RMB9.8 million for the six months ended 30 June 2011 to nil for the Period. Despite the increase in profit after tax, the Group acquired 3% non-controlling interest in Wuzhou Shenguan. As a result, there was no profit attributable to non-controlling interests during the Period.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 2.5% from RMB305.2 million for the six months ended 30 June 2011 to RMB312.7 million for the Period. Profit attributable to owners of the Company excluding foreign exchange differences rose by 9.0% to RMB314.7 million for the Period from RMB288.6 million in the same period 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 30 June 2012, the cash and cash equivalents amounted to RMB823.1 million, representing an increase of RMB335.3 million from the end of 2011. Among the cash and bank deposits balance, 98.2% was denominated in Renminbi and the remaining 1.8% was denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2012, the total liabilities of the Group amounted to RMB488.8 million (31 December 2011: RMB286.9 million), of which RMB65.0 million was long-term bank borrowings due over one year. As at 30 June 2012, the Group had short-term bank borrowings of RMB164.4 million due within one year. All of the Group's bank borrowings were subject to interest rates currently ranging from 3.75% to 7.59% per annum and were denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB593.6 million as at 30 June 2012 together with held-to-maturity investments of RMB51.4 million. The debt-to-equity ratio was 11.1% as at 30 June 2012 (31 December 2011: 3.3%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Period, RMB280.7 million, RMB39.2 million and RMB7.1 million were respectively generated from the operating activities, investing activities and financing activities of the Group. Net cash inflow from financing activities was mainly related to the combined effects of distribution of a final dividend for 2011 by the Company and the additions of bank loans. Net cash inflows from investing activities were mainly related to a decrease in held-to-maturity investments, which was partly offset by the expansion of production facilities, purchase of property, plant and equipment, as well as an increase in non-pledged time deposits with original maturity of more than three months when acquired.

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 RMB150.6 million and capital commitments as at 30 June 2012 amounted to RMB255.3 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production lines.

In 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 upgrading of production technology.

Pledge of assets

As at 30 June 2012, the Group's short term bank borrowings of RMB164.4 million were secured by cash in bank of RMB164.0 million.

Acquisitions, disposals and significant investment

During the Period, there was no material acquisition, disposal or investment by the Group.

Contingent liabilities

As at 30 June 2012 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 pubic offering were approximately RMB1,190.6 million.

As at 30 June 2012, 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 RMB653.2 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 had been placed with licensed banks in Hong Kong and Mainland China as interest-bearing deposits as at 30 June 2012.

Human resources

As at 30 June 2012, the Group had approximately 4,000 employees with a total remuneration of RMB69.0 million during the Period. 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 (the "Scheme"). The 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 optimistic towards the vast potential of the collagen sausage casing market in the PRC. Rising income and improving standard of living will continue to boost demand for processed meat products, despite the challenging market conditions and slowing Chinese economy. The safety issue in the gelatine industry had come to light, which brought consumers to question about the safety of food products. For this issue, the Group's examination center had served a positive function. The group had invested over RMB30 million in the past to build this examination center, which was equipped with the most sophisticated examination instruments among the food production industry in Guangxi. This examination center had strictly executed the inward raw materials examination and the outward finished goods examination in the production procedure. In addition, the Group's production also strictly complied with the European Union standards, PRC national standards, industry standards and corporate standards. As a result, the demand for collagen sausage products of the Group started to return in the second half of 2012 after the Group proactively sought confirmation of product safety of its products. Sales growth of our products gradually returned to normal in July 2012 and is expected to continue in the rest of the second half of the year.

The new production lines added by the Group during the Period had commenced operation in June 2012 and started to contribute to the overall growth of the Group. The Group also plans to add more production lines by the end of 2012 to cope with market demand. This will enable the Group to achieve the target of maintaining a capacity expansion rate of over 20% for the whole of 2012.

The Group will continue to place emphasis on product quality and safety, from raw materials to finished products, to ensure highest quality of our collagen sausage casings. The Group shall achieve this by continual upgrade of its standards and benchmarks in key control points of its production process so that stringent production controls are in place.

The Group will continue to diversify its product mix, speed up product development, improve and perfect workmanship in the production process so as to meet market demand. The Group will also strengthen the innovation capabilities of its technology center and examination center and increase protection of intellectual property.

At the same time, the Group will continue its efforts in increasing sales of its new product – Muslim casing products. We believe with the Muslim casings eventually launched in the overseas markets, the contribution to the Group will be gradually reflected. Sales revenue of Muslim sausage casings is expected to become one of the key growth drivers of the Group's business in the long run.

We believe with our commitment to delivering innovative, safe and reliable products to our customers and leveraging on our core strengths in manufacturing quality collagen sausage casing products, Shenguan will be able to grow its market share and enhance its leading position to maximize returns to its shareholders.

OTHER INFORMATION

Interim dividend

The Board resolved the payment of an interim dividend of HK4.5 cents per ordinary share in respect of the Period and a special dividend of HK1.0 cent per ordinary share to shareholders on the register of members of the Company on 12 September 2012. It is expected that the interim dividend and the special dividend will be paid on or around 25 September 2012.

Closure of register of members

The register of members of the Company will be closed from Friday, 7 September 2012 to Wednesday, 12 September 2012 (both days inclusive) and during such period, no transfer of shares will be registered. To ensure the entitlement to the interim dividend and the special 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, 6 September 2012.

Appointment of executive director

At the annual general meeting held on 13 April 2012 (the "AGM"), the election of Mr. Mo Yunxi as an executive Director was duly approved by the Shareholders and such appointment took effect immediately thereafter. Mr. Mo has entered into a director's service agreement with the Company as an executive Director for a term of three years commencing on the date of the AGM which approves his appointment and ending at the conclusion of the 2014 annual general meeting of the Company to be held in 2015.

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.

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 Period.

Code on Corporate Governance Practices

Save as disclosed below, the Company had complied with all the code provisions as set out in the Code on Corporate Governance (the "Code") contained in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012. The Code had been amended which took effect from 1 April 2012 (the "Revised Code"). Save as disclosed below, the Company had complied with all the code provisions as set out in the Revised Code during the period from 1 April 2012 to 30 June 2012.

Under code provision A.2.1 of the Code or the Revised Code, the roles of chairman and chief executive officer (as required under the Code) or the chief executive (as required under the Revised Code) 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" or "chief executive". This deviates from the code provision A.2.1 of the Code or the Revised 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 a separate, chief executive.

Under code provision A.6.7 of the Revised Code, the independent non-executive Directors and the non-executive Director should attend the general meetings of the Company. However, due to other commitments, an independent non-executive Director, Mr. Yang Xiaohu did not attend the annual general meeting of the Company held on 20 August 2012.

All the Directors have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation and majority of the independent non-executive Directors, Mr. Tsui Yung Kwok and Mr. Meng Qinguo have attended the said annual general meeting.

Audit committee

The audit committee of the Company had reviewed the condensed consolidated interim results of the Company for the Period 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, 20 August 2012

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Ms. Cai Yueqing, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi; 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.