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SHEN GUAN

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 2012

RESULTS HIGHLIGHTS

- Achieved revenue of RMB1,648.5 million, increased by 9.8% year-on-year
- Excluding foreign exchange differences, achieved profit attributable to owners of the Company of RMB745.7 million, increased by 13.4% year-on-year
- Recommended the payment of a final dividend of HK6.5 cents per share and a special dividend of HK3.3 cents per share
- Maintained a net cash position of RMB657.3 million as at 31 December 2012
- Cash inflows from operating activities amounted to RMB763.2 million, increased by 9.6% year-on-year
- Dividend payout ratio increased to 55.2% in 2012 as compared to 40.5% in 2011
- Proceeds were fully utilized 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 2012 (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 2012 consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 18 March 2013.

During the Year, the demand for the products of the Group maintained healthy growth with some breakthroughs. The revenue from the sales of the collagen sausage casings increased by 9.8% to RMB1,648.5 million as compared to 2011. During the Year, profitability of the Group has improved. Profit attributable to owners of the Company excluding foreign exchange differences rose by 13.4% to RMB745.7 million in 2012. Taking into account of the foreign exchange differences, profit attributable to owners of the Company was RMB748.2 million, representing a growth of 8.5% year on year. The basic earnings per share attributable to owners of the Company was RMB22.5 cents.

The Board is pleased to propose a final dividend of HK6.5 cents per share and a special dividend of HK3.3 cents per share. For reference purpose, the closing exchange rate for Renminbi to Hong Kong Dollars as announced by the People's Bank of China at the date of this announcement is RMB0.80845 to HK$1.00. Accordingly, the total amount of final dividend and special dividend per share equivalent to RMB7.9228 cents, together with the total dividend of HK5.5 cents per share declared in the interim results announcement dated 20 August 2012 ("Interim Results Announcement") (equivalent to RMB4.5011 cents as stated in the Interim Results Announcement), represents a dividend payout ratio of approximately 55.2%.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4	**1,648,477**	1,501,985
Cost of sales		**(689,255)**	(571,709)
Gross profit		**959,222**	930,276
Other income and gains	4	**70,326**	62,578
Selling and distribution expenses		**(20,385)**	(22,533)
Administrative expenses		**(81,201)**	(101,911)
Finance costs, net	5	**2,239**	(289)
PROFIT BEFORE TAX	6	**930,201**	868,121
Income tax expense	7	**(182,018)**	(163,490)
PROFIT FOR THE YEAR		**748,183**	704,631
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(2,101)**	(35,163)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(2,101)**	(35,163)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**746,082**	669,468
Profit attributable to:			
Owners of the Company		**748,183**	689,319
Non-controlling interests		**–**	15,312
		748,183	704,631
Total comprehensive income attributable to:			
Owners of the Company		**746,082**	654,156
Non-controlling interests		**–**	15,312
		746,082	669,468
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	9		
Basic (RMB cents per share)		**22.5**	20.7
Diluted (RMB cents per share)		**22.5**	20.7

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,243,726**	922,526
Prepaid land lease payments		**106,290**	105,646
Patent		**–**	285
Contract in progress		**91,012**	–
Available-for-sale investment		**–**	200
Held-to-maturity investments		**53,193**	50,403
Deferred tax assets		**13,906**	14,074
Long term prepayments		**46,398**	10,136
Total non-current assets		**1,554,525**	1,103,270
CURRENT ASSETS			
Inventories		**205,496**	182,342
Trade and bills receivables	*10*	**185,994**	166,226
Prepayments, deposits and other receivables		**52,127**	48,439
Principal-protected investments		**–**	50,000
Held-to-maturity investments		**–**	154,329
Tax recoverable		**19**	–
Pledged deposit		**164,000**	–
Cash and cash equivalents		**720,460**	487,789
Total current assets		**1,328,096**	1,089,125
CURRENT LIABILITIES			
Trade payables	*11*	**40,671**	52,434
Other payables and accruals		**205,754**	123,740
Derivative financial instruments		**2,385**	–
Interest-bearing bank borrowings		**167,160**	42,971
Tax payable		**23,709**	18,196
Total current liabilities		**439,679**	237,341
NET CURRENT ASSETS		**888,417**	851,784
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,442,942**	1,955,054
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**60,000**	20,000
Deferred income		**36,288**	28,952
Deferred tax liabilities		**1,871**	630
Total non-current liabilities		**98,159**	49,582
Net assets		**2,344,783**	1,905,472
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**28,584**	28,568
Reserves		**2,316,199**	1,876,904
Total equity		**2,344,783**	1,905,472

Notes to Financial Statements

31 December 2012

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 ("HKICPA"), 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, except for certain derivative financial instruments which have been measured at fair value. 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 revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Date 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 Assets*

Other than as further explained below regarding the impact of HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on the Group.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The adoption of the amendments did not have any impact on the financial position or performance of the Group as the Group does not have any investment property.

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.

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 2012, revenue generated from a single (2011: single) customer of the Group amounting to RMB507,242,000 (2011: RMB498,572,000) 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:

	2012	2011
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,648,477**	1,501,985
Other income, net		
Bank interest income	**8,779**	14,687
Interest income from held-to-maturity investments	**3,636**	7,967
Sales of dried meat products	**605**	737
Government grants	**32,547**	6,924
Others	**1,326**	316
	46,893	30,631
Gains		
Foreign exchange gains, net	**2,485**	31,924
Gain on disposal of financial assets through profit or loss	**20,942**	23
Gain on disposal of an available-for-sale investment	**6**	–
	23,433	31,947
	70,326	62,578

5. Finance Costs, Net

	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans	**7,280**	3,594
Less: Government grants	**(6,000)**	(3,305)
Interest capitalised	**(3,519)**	–
	(2,239)	289

6. Profit Before Tax

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

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	**275,191**	217,719
Depreciation	**52,764**	42,687
Amortisation of a patent	**285**	859
Amortisation of land lease payments	**2,293**	2,086

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 2012.

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).

	2012	2011
	RMB'000	*RMB'000*
Group:		
Current tax charge for the year		
– PRC	**186,007**	166,031
Underprovision/(overprovision) in prior year	**(5,398)**	2,113
Deferred tax	**1,409**	(4,654)
Total tax charge for the year	**182,018**	163,490

8. Dividends

	2012	2011
	RMB'000	*RMB'000*
Interim dividend		
– HK4.5 cents (2011: HK4.3 cents) per ordinary share	**122,418**	117,560
Interim special dividend		
– HK1.0 cent (2011: Nil) per ordinary share	**27,204**	–
Final dividend proposed subsequent to the reporting period		
– HK6.5 cents (2011: HK6.0 cents) per ordinary share	**174,680**	161,973
Final special dividend proposed subsequent to the reporting period		
– HK3.3 cents (2011: Nil) per ordinary share	**88,684**	–
	412,986	279,533

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

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

The calculation of the basic earnings per share amount for the year ended 31 December 2012 is based on the profit for the year attributable to ordinary owners of the Company of RMB748,183,000 (2011: RMB689,319,000), and the weighted average number of ordinary shares of 3,323,289,000 (2011: 3,322,120,000) in issue during the year ended 31 December 2012.

The calculation of the diluted earnings per share amount for the year ended 31 December 2012 is based on the profit for the year attributable to ordinary owners of the Company of RMB748,183,000 (2011: RMB689,319,000). 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 2012, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 3,915,000 (2011: 4,527,000) assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares.

The weighted average numbers of ordinary shares for the year ended 2011 had been retrospectively adjusted for the bonus issue which took place on 20 June 2011.

10. Trade and Bills Receivables

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**191,111**	121,236
Bills receivable	**–**	49,471
Due from related companies	**3,220**	649
Less: Impairment	**(8,337)**	(5,130)
	185,994	166,226

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:

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**174,327**	146,573
3 to 4 months	**5,896**	11,354
Over 4 months	**5,771**	8,299
	185,994	166,226

Due from related companies:

	2012	2011
	RMB'000	*RMB'000*
LJK Frozen SDN. BHD. ("LJK") *(note (a))*	**1,537**	649
Ample Company LLC ("Ample Company") *(note (b))*	**1,683**	–
	3,220	649

Notes:

(a) LJK is controlled by Mr. Low Jee Keong, a director of the Company. The amount due from LJK is unsecured, non-interest-bearing and has a repayment term of 45 days, which is on terms similar to those offered to other major customers of the Group.

(b) Ample Company is controlled by Mr. Wei Cheng, a director of certain subsidiaries of the Company. The amount due from Ample Company is unsecured, non-interest-bearing and has a repayment term of 45 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:

	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**36,348**	37,298
1 to 2 months	**2,055**	8,962
2 to 3 months	**212**	1,582
Over 3 months	**2,056**	4,592
	40,671	52,434

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

12. Shares

	2012	2011
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,324,120,000 (2011: 3,322,120,000) ordinary shares of HK$0.01 each	**33,242**	33,222
Equivalent to RMB'000	**28,584**	28,568

Management Discussion and Analysis

Industry Review

In 2012, the global economic environment remained sluggish. The European sovereign debt crisis has been temporarily solved, but followed by the United States' fiscal cliff. The pace of economic recovery was still slow. The external economic situation has hit the PRC economy, resulting in a difficult and complicated economic environment. The PRC economy has grown at its slowest pace since 1999. However, the PRC economy has kept up with its stable growth. In 2012, the PRC economic growth was 7.8%, which was higher than the annual target of 7.5%. The effective growth rate of the per capita disposal income of the PRC urban residents was 9.6%, and that of the per capita net income of the rural residents was 10.7%. This reflected that, despite the difficult economic situation, the income level of the Chinese nationals kept increasing and their living standards continued to rise.

In 2012, food safety has become a critical issue for the food industry in the PRC. The industrial gelatin incident in April 2012, in particular, had a significant impact to collagen-related products. It caused a temporal and indirect impact on consumer confidence and sales towards the end of the second quarter for the industry. In the meantime, such issue has also enhanced the awareness on food safety among consumers and increased their emphasis on the creditworthiness of an enterprise and the quality control efforts, which has increased the merits of enterprises committed in selling high-quality and safe collagen related products. The market penetration of Chinese collagen-related products is significantly lower than developed countries which also suggests that there is a huge market potential.

In addition, the improvement of the national income level in China as well as the living quality has contributed to the increase of the demand for food. Coupled with the fact that one of the policies laid out in the "Twelfth Five Year Plan" ("Twelfth Five-Year") targeting to improve the overall food industry has facilitated the development of the meat products sector, and has promoted the sustainable growth of the purchasing power and demand for low temperature meat products among Chinese nationals. It has also contributed to the stable expansion of the sausage casing product market.

As the PRC government concluded in the Meat Industry "Twelfth Five-Year" Development Plan ("Development Plan") in 2010, the total volume of meat production in the PRC reached 79,258,000 tonnes, of which the total production volume of meat products accounted for 15.1% and reached 12,000,000 tonnes. Comparing to the high level of 50% in the developed countries, the proportion of the production volume of meat products in the PRC lags far behind, and thus the requirements of improving urban and rural residents' consumption structure of meat products cannot be met.

Therefore, the PRC will actively develop chilled meat processing and meat product production in the future. Under the Development Plan of the PRC government, it is expected that by 2015, the production volume of meat products will increase by 25% as compared with 2010, accounting for a proportion of over 17% of the total volume of meat production. The proportion of western-style meat products will increase from 45% to 50%. In respect of the planning of meat product processing, in those large and medium-sized cities as well as developed regions, the PRC will step up to expand the production of low-temperature meat products, develop the intensive processing of meat products and develop low-temperature meat products as well as refined meat products and quick-freezing convenient meat products, and will also make an effort to integrate the western food culture of nutrition and convenience with the Chinese food culture of colour, odor, taste and shape. According to the Development Plan, the PRC will foster the establishment of distribution system of cold-chain logistics based on various product features, in order to effectively ensure the meat product quality, and therefore establish optimal policies and environment for the development of the meat industry.

Business and Operational Review

Being the largest edible collagen protein sausage casing manufacturer in Asia, on the basis of ensuring the high quality of products, the Group continues its investment in enhancing production capacity to capture development opportunities available in the market, driving the stable development for the Group.

During the year ended 31 December 2012, revenue of the Group increased by 9.8% from RMB1,502 million in 2011 to RMB1,648.5 million. Consumers' concern over the safety of collagen products arising from the industrial gelatin incident between May and June 2012 had indirectly affected the sales of the Group's collagen sausage casings. However, the Group addressed the issue proactively through conducting various examinations recognized internationally, acknowledging that the quality of the Group's products has passed all relevant tests and inspections. Consumers' confidence was thus restored and sales resumed to normal level. During the Year, profit attributable to the owners of the Company excluding foreign exchange differences rose by 13.4% to RMB745.7 million from RMB657.4 million in 2012. Taking into account of the foreign exchange differences, profit attributable to the owners of the Company increased by 8.5% from RMB689.3 million in 2011 to RMB748.2 million of the Year.

The Board recommends the payment of a final dividend for the Year of HK6.5 cents (2011: HK6.0 cents) per share and a special dividend for the Year of HK3.3 cents (2011: nil). The payout ratio further increased to 55.2% (2011: 40.5%).

Product Mix

During the Period, the Group was principally engaged in the manufacture and sale of edible collagen sausage casings, most of which were used for western sausages. The rising market demand for sausages, in particular, low temperature sausages, and the increasingly diversified ingredients used in sausage products in the PRC market, have become the main market drivers in 2012.

The Group's efforts in diversifying its product mix are paying off. The Muslim sausage casings are currently being sold mainly in the PRC market. It is expected that sales revenue of Muslim sausage casings will gradually become one of the 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. In terms of sales revenue, 94.5% of the products were sold to the sausage manufacturers in the PRC, which is the Group major market. The growth of sales volume from exporting to the Southeast Asian regions grew significantly, driving the overall growth of the export operations. The overall exports to South America, Southeast Asia, the United States and Europe accounted for 5.5% of the total sales.

Supply of Raw Materials

The core raw material for collagen sausage casing production is cattle's inner skin. The supply of cattle's inner skin remained stable in the past few years. With the good relationship established between the Group and its suppliers over the years, the Group expects to secure a stable supply of cattle's inner skins in the future.

Cost Control

In 2012, the Group experienced various challenges in respect of cost control. Factors such as the rise of energy and labor costs, the overheads from additional production plants, the trial operation costs of new production lines and the ongoing inflation, have caused pressure to cost control.

Owing to the above factors, the Group strived to implement cost control, continued to enhance the efficiency of existing production lines and optimized its energy-saving facilities, in an attempt to offset part of the effects brought by those factors. Meanwhile, the Group leveraged on its research and development ("R&D") expertise to enrich product mix and maintain profitability. The Group also strengthened its centralized procurement management to reduce procurement costs and increase the benefits from economies of scale. In 2013, the Group will implement several new measures to lower costs and ensure quality. The new measures will be further elaborated in the section of "Prospects".

Production Capacity

During the Period, the Group continued to increase its investment in production capacity development in light of the rapidly growing demand for collagen sausage casings.

In June 2012, the Group's production base constructed in Wangfu, Wuzhou, Guangxi was completed. This production base not only made significant contribution to production capacity expansion, but also greatly enhanced efficiency during the second half of 2012. As at 31 December 2012, the Group owned three production bases in Wuzhou, Guangxi, namely Fudian, Wangfu and Sifu. The new production lines added in the second half of 2012 were put into production following their completion of trial production. It is expected that the last batch of additional production lines in 2012 will be put into production in the second quarter of 2013.

As at 31 December 2012, permits for the production of Muslim sausage casings were granted to the Group by the China Islamic Association (中國伊斯蘭教協會), ensuring a sufficient production capacity to cope with the increase in sales of Muslim sausage casings in the future.

To cope with the rapidly growing production volume, the Group also invested to increase the production capacity in its collagen processing plants. During the Period, the Group completed the relocation of its collagen extraction facilities. Apart from the production lines being put into production, Sifu production base also undertook the processing of collagen for that region and for Wangfu production base. This not only further enhanced the efficiency of collagen processing, but also improved the quality of the processed collagen. In addition, the Group has enhanced the production lines in the old Fudian production base and added new automatic facilities to improve production efficiency.

Technological Research & Development

The R&D of new technologies and product is one of the competitive advantages of the Group. The Group participated in the preliminary stages of R&D process of the new sausage products, and provided tailor-made collagen sausage casing products according to specific customer's preferences. The Group strongly believes that it can maintain its leading position in the market based on its dedication and emphasis on R&D.

As at 31 December 2012, the Group has 25 valid patents granted by the State Intellectual Property Office, and another 20 patents applications accepted but pending for approval. These patented technologies have enabled the Group to distinguish itself from other peers in the market, and also become the key to raise the entry barrier for counterparts. The Group will continue to optimize the production technologies to reduce the production cost.

Quality Control

Quality control is another core competitive strength of the Group. It is particularly important as consumers' concerns over food safety increase. The Group undertakes strict quality control over every single production process to ensure that its products are of their optimal quality and all the safety requirements have been complied before they are delivered to the customers.

The Group has passed the Assessment of ISO9001:2008 Quality Management System and ISO22000:2005 Food Safety Management System, and has obtained the Food and Drug Administration ("FDA") registration for the export of products to the United States. In addition, the production of all of the Group's products have strictly complied with the PRC national standards (GB14967–94), sausage casing manufacturing industry standards (SB/T10373–2004) and corporate standards (Q/WZSG0001S-2012), which has already been put on record. All these certifications 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. In 2012, the Group also upgraded the research center, installed new and advanced inspection and testing facilities, and expanded the technology and examination center at the same time, so as to strictly monitor the production. Currently, the examination center 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. After years of cooperation with its business partners based on mutual trust, the Group has established a sophisticated customer network as well as a long-term relationship. Over the years, the Group has established a closely-knit connection with an extensive network of leading manufacturers of processed meat products and sausages, not only in the PRC, but also in various overseas markets, such as South America, Southeast Asia, the United States and Europe. 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 to greatly reduce the use of energy. Technological innovation has been the Group's key drive of motivation in its course of development. The Group achieved a ground-breaking development in energy saving technology and its R&D 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工程項目). The Group achieved a satisfactory result by replacing steam boilers with the heat energy technology in the drying process across all of its production lines. Riding on this initial success, the Group continued to further improve its heat energy technology, resulting in greater energy-saving. All of the above factors have further enhanced the automation level and mitigated the pressure of rising labor costs.

Financial Analysis

Revenue

The Group's revenue increased by 9.8% from RMB1,502.0 million in 2011 to RMB1,648.5 million in 2012, 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 20.6% from RMB571.7 million in 2011 to RMB689.3 million in 2012. The increase was driven by the following factors: (i) the cost of raw materials increased by RMB78.1 million due to increased production volume and trial run of new production lines; (ii) water, electricity and coal expenses increased by RMB28.4 million mainly caused by the increase in production scale and increase in unit cost of electricity; and (iii) the direct labor expenses increased by RMB5.2 million as the Group annually reviewed the remuneration of workers to support its operations.

Gross profit

Gross profit increased by 3.1% from RMB930.3 million in 2011 to RMB959.2 million in 2012. 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. But due to the increase in cost of raw materials incurred for the trial run of new production lines and the increase in unit cost of electricity, the gross profit margin of the Group decreased from 61.9% in 2011 to 58.2% in 2012.

Other income and gains

Other income and gains increased by 12.4% from RMB62.6 million in 2011 to RMB70.3 million in 2012. In 2011 and 2012, the Group received government grants of RMB6.9 million and RMB32.5 million, respectively.

Selling and distribution costs

Selling and distribution expenses decreased by 9.5% from RMB22.5 million in 2011 to RMB20.4 million in 2012. Selling and distribution expenses accounted for 1.5% of the revenue in 2011 and 1.2% of the revenue in 2012.

Administrative expenses

Administrative expenses decreased by 20.3% from RMB101.9 million in 2011 to RMB81.2 million in 2012. The decrease was mainly caused by the reversal of provision for obsolete stock amounted to RMB6.7 million, the provision of which was made in 2011. In addition, the total bonus and welfare provided for and paid to staff have also decreased.

Finance costs

Finance costs decreased from a net charge of RMB289,000 in 2011 to a credit of RMB2.2 million in 2012. The change was due to the grant of a government subsidy of RMB6.0 million and an interest capitalisation of RMB3.5 million which offset the interest on bank loans of RMB7.3 million.

Income tax expenses

Income tax expenses were RMB163.5 million in 2011, as compared to RMB182.0 million in 2012. 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 18.8% and 19.6% to the profit before tax in 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. The increase in effective tax rate was mainly caused by the higher dividend payout ratio in 2012 as compared to 2011.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests was decreased from RMB15.3 million in 2011 to nil in 2012. Despite the increase in profit after tax, the Group acquired 3% non-controlling interest in Wuzhou Shenguan in 2011. As a result, there was no profit attributable to non-controlling interests in 2012.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company excluding foreign exchange differences rose by 13.4% to RMB745.7 million in 2012 from RMB657.4 million in 2011. Taking into account of the foreign exchange differences, profit attributable to owners of the Company increased by 8.5% from RMB689.3 million in 2011 to RMB748.2 million in 2012.

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 2012, the cash and cash equivalents including the pledged deposit amounted to RMB884.5 million, representing an increase of RMB396.7 million from the end of 2011. Among the cash and bank deposits balance, 98.7% was denominated in Renminbi and the remaining 1.3% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2012, the total liabilities of the Group amounted to RMB537.8 million (31 December 2011: RMB286.9 million), of which RMB60.0 million was long-term bank borrowings due over one year, all of which are denominated in Renminbi. As at 31 December 2012, the Group had short-term bank borrowings of RMB167.2 million due within one year, of which RMB162.2 million (HK$200 million) was short-term bank borrowings denominated in Hong Kong dollars, and the remaining was denominated in Renminbi. All of the Group's bank borrowings were subject to interest rates currently ranging from 3.70% to 7.32% per annum.

The Group was in a net cash position (cash and cash equivalents including the pledged deposit less total bank borrowings) of RMB657.3 million as at 31 December 2012 together with held-to-maturity investments of RMB53.2 million. The debt-to-equity ratio was 9.7% as at 31 December 2012 (31 December 2011: 3.3%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

In 2012, RMB763.2 million was generated from the operating activities, while the net amount spent on investing activities and financing activities were RMB337.4 million and RMB151.0 million, respectively. Net cash outflow from investing activities were mainly related to the expansion of production facilities, purchase of property, plant and equipment, increase in prepayment of land lease payments, and increase in land development investment contract, which were partly offset by the decrease in held-to-maturity investments, as well as a decrease in non-pledged time deposits with original maturity of more than three months when acquired. Net cash outflows from financing activities were mainly related to the combined effects of distribution of a final dividend for 2011 and an interim dividend for the six months ended 30 June 2012 by the Company which was partly offset by the additions of bank loans.

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 believes that future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

The Group also had a bank borrowing denominated in Hong Kong dollars. The fluctuation of the exchange rates of such currencies against RMB will affect the Group's results of operations. The Group has entered into forward currency contracts to mitigate the exchange rate risk of Hong Kong dollars against RMB at the bank borrowing maturity date. The change in value of these forward currency contracts is expected to offset the exchange rate difference of the Hong Kong dollars denominated bank borrowing at the bank borrowing maturity date and guarantee certain revenue.

Capital expenditure

The cash outflow for the capital expenditure used in investing activities during the Period amounted to RMB334.1 million and capital commitments as at 31 December 2012 amounted to RMB126.1 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production lines.

In 2013, the Company has budgeted to spend around RMB100.0 million to RMB150.0 million for capital expenditure, including mainly the capital expenditure for the outstanding payment for the new production lines, improving the production capacity of auxiliaries, diversifying products, and upgrading of production technology.

Pledge of assets

As at 31 December 2012, the Group's short term bank borrowings of RMB162.2 million were secured by cash in bank of RMB164.0 million.

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 31 December 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, approximately RMB961.1 million of the proceeds was used for the development and expansion of the production facilities in Wuzhou, and approximately RMB82.1 million was used for working capital purpose. All proceeds were fully utilized in accordance with the proposed applications set forth in the prospectus of the Company dated 30 September 2009.

Contingent liabilities

As at 31 December 2012 and up to the date of this announcement, the Group was not aware of any material contingent liabilities.

Acquisitions, Disposals and Significant Investment

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

Human resources

As at 31 December 2012, the Group had approximately 4,000 employees with a total remuneration of RMB124.2 million 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 (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. Improving living standards and, thus, changing lifestyle of the PRC urban population will continue to drive the strong demand for processed meat products and substitution for natural sausage casings, despite the slowing-down economy and challenging food product industry environment in the PRC. According to the "Twelfth Five Year Plan" regarding the meat industry in the PRC, the PRC will proactively develop chilled meat processing and meat products production. By 2015, the production volume of meat products will increase by 25% as compared with 2010, accounting for a proportion of over 17% of the total volume of meat production. The proportion of western-style meat products will increase from 45% to 50%. The sustainability of the meat industry will be further strengthened with the increasing support and efforts from the central and local governments to the meat industry, and the optimization of the meat industry structure and the product structure.

In 2012, the industrial gelatin issue had come to light and thus drastically increased consumers' concerns over the safety of food products. As such, the examination center, for which the Group had invested over RMB30 million to build and equipped with the most sophisticated examination instruments among the food production industry in Guangxi, served a positive function. This examination center managed to turn the crisis into an opportunity by positively substantiating the safety of the Group's collagen products, which enhanced customers' confidence in the products of the Group and enabled the Group to swiftly recover the sales of its collagen sausage products. In the long run, this sharpened competitive edge also helped the Group further outstrip its competitors, established an entry barrier for the industry in the area of product safety as well as enhancing the Group's competitiveness.

In the light of the importance of food product safety, the Group will continue to attach great importance to the product quality and safety of raw materials and finished products by constantly stepping up its efforts in quality control and implementing strict measures to monitor the production. The Group will also continue to increase its efficiency in operational cost control in order to reduce operational costs. At the same time, the Group will continue to diversify its product mix, speed up product development, improve and perfect the workmanship in the production process so as to meet market demand.

After years of development, the Group's strength in respect of its scale is obvious with its production scale ranking the first in Asia. In 2013, the production capacity of the Group is expected to increase by 10% to 15%. The Group believes that it has maintained an optimal balance between meeting the increasing market demand and pursuing higher product quality under this growth rate, ensuring the long-term and healthy development of the Group. The Group will also continue its efforts in increasing sales of the new Muslim casing products.

By the end of 2012, the construction of the plant for the Group's project of edible cellulose production line was completed. Equipment installation and fine tuning were also completed. The plant officially commenced trial production in January 2013 and the product quality is up to the planned requirements. Production of edible cellulose products is going to provide more solid protection to the quality and safety of the Company's casing products and effectively reduce production costs.

In addition, the "Project of Conversion of Production Waste into Organic Fertilizer through Bio-Fermentation" (利用生產過程中的廢棄物通過生物發酵處理), which was jointly operated by the Group and Beijing Zhongkebolian Environment Engineering Limited (北京中科博聯環境工程有限公司) under the Chinese Academy of Sciences, was officially put into operation in the end of 2012. The production line of the project makes use of the cattle's skin fragments, substandard collagen and substandard sausage casings from the sausage casings production process to produce an organic fertilizer, which comes from detoxified solid wastes and becomes a high quality organic fertilizer. The fertilizer contains more organic substance and nutrients than ordinary organic fertilizers. Apart from expanding its additional revenue base, this production line also significantly reduces related environmental protection costs in residual wastes handling.

Leveraging on the scale operations and our core strengths in manufacturing quality collagen sausage casing products, the Group will endeavor to improve existing production lines and supporting facilities, as well as upgrading the automation of existing machine in 2013. The Group believes that it will be able to continue to enhance its leading position and create the most rewarding returns to its customers and shareholders.

OTHER INFORMATION

Dividends

The Board recommended the payment of a final dividend of HK6.5 cents per ordinary share and a special dividend of HK3.3 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 2013. 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 2013.

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 15 May 2013 (Wednesday), the register of members of the Company will be closed from 10 May 2013 (Friday) to 15 May 2013 (Wednesday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 9 May 2013 (Thursday). For determining entitlement to the final and special dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 22 May 2013 (Wednesday) to 24 May 2013 (Friday), both dates inclusive. The record date will be 24 May 2013 (Friday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 21 May 2013 (Tuesday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final and special 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 had 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 Rules Governing the Listing of Securities on the Stock Exchange ("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.

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 Practices (the "Code") contained in the former Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012, and all the code provisions as set out in the Corporate Governance Code (the "Revised Code") contained in the revised Appendix 14 to the Listing Rules during the period from 1 April 2012 to 31 December 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 16 May 2012 ("2012 AGM").

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 a majority of the independent non-executive Directors, Mr. Tsui Yung Kwok and Mr. Meng Qinguo have attended the 2012 AGM.

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.

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

Hong Kong, 18 March 2013

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.