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SHENGUAN HOLDINGS (GROUP) LIMITED

神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

INTERIM RESULTS 2013 ANNOUNCEMENT

RESULTS HIGHLIGHTS

- Achieved revenue of RMB683.3 million, slightly decreased by 1.3% year over year
- Achieved profit attributable to owners of the Company of RMB304.6 million, slightly decreased by 2.6% year over year
- Resolved the payment of an interim dividend of HK4.7 cents per share and a special dividend of HK2.8 cents per share, dividend payout ratio increased from 47.9% to 65.1%
- As at 30 June 2013, 70% production lines has already adopted the new heat energy technology and the whole project is expected to be completed by the end of August 2013

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 2013 (the “Period”), which have been prepared in accordance with the Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by Hong Kong Institute of Certified Public Accountants. The 2013 consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 19 August 2013.

Revenue of the Group was RMB683.3 million for the six months ended 30 June 2013, decreased by 1.3% from RMB692.3 million for the six months ended 30 June 2012 (the “Prior Period”). While domestic sales remained to be the Group’s major source of revenue, the growth of sales volume in exports surged significantly and accounted for 7.5% of the total sales. Profit attributable to owners of the Company decreased by 2.6% to RMB304.6 million from RMB312.7 million of the Prior Period. Basic earnings per share of the Group were RMB9.16 cents for the Period (1H2012: RMB9.41 cents).

The Board recommends the payment of an interim dividend for the Period of HK4.7 cents (1H2012: HK4.5 cents) per share and a special dividend of HK2.8 cents (1H2012: HK1.0 cent). For reference purpose, the closing exchange rate for Renminbi to Hong Kong Dollars as announced by the People’s Bank of China as at the date of this announcement is RMB0.79565 to HK\$1.00. Accordingly, the aggregate amount of interim dividend per share and special dividend per share equivalent to RMB5.9674 cents, representing a dividend payout ratio of 65.1%.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
REVENUE	4	683,336	692,252
Cost of sales		<u>(289,911)</u>	<u>(276,534)</u>
Gross profit		393,425	415,718
Other income and gains	4	38,904	18,175
Selling and distribution expenses		(8,683)	(7,711)
Administrative expenses		(38,158)	(36,785)
Finance costs	5	<u>(4,393)</u>	<u>2,444</u>
PROFIT BEFORE TAX	6	381,095	391,841
Income tax expense	7	<u>(76,497)</u>	<u>(79,158)</u>
PROFIT FOR THE PERIOD		304,598	312,683
OTHER COMPREHENSIVE INCOME/ (LOSS)			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<u>(5,899)</u>	<u>47</u>
NET OTHER COMPREHENSIVE INCOME/ (LOSS) TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		<u>(5,899)</u>	<u>47</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>298,699</u>	<u>312,730</u>

		Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	Note		
Profit attributable to owners of the Company		304,598	312,683
Total comprehensive income attributable to owners of the Company		298,699	312,730
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
	9		
Basic (RMB cents per share)		9.16	9.41
Diluted (RMB cents per share)		9.15	9.40

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

		30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,394,293	1,243,726
Prepaid land lease payments		117,073	106,290
Contract in progress		92,078	91,012
Held-to-maturity investments		54,588	53,193
Deferred tax assets		21,191	13,906
Long term prepayments		20,965	46,398
Total non-current assets		1,700,188	1,554,525
CURRENT ASSETS			
Inventories		349,488	205,496
Trade and bills receivables	10	141,384	185,994
Prepayments, deposits and other receivables		125,756	52,127
Tax recoverable		–	19
Pledged deposit		–	164,000
Cash and cash equivalents		490,729	720,460
Total current assets		1,107,357	1,328,096
CURRENT LIABILITIES			
Trade payables	11	64,639	40,671
Other payables and accruals		183,942	205,754
Derivative financial instruments		–	2,385
Interest-bearing bank borrowings		100,000	167,160
Tax payable		36,631	23,709
Total current liabilities		385,212	439,679
NET CURRENT ASSETS			
		722,145	888,417
TOTAL ASSETS LESS CURRENT LIABILITIES			
		2,422,333	2,442,942

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	–	60,000
Deferred income	39,372	36,288
Deferred tax liabilities	2,530	1,871
Total non-current liabilities	41,902	98,159
Net assets	2,380,431	2,344,783
EQUITY		
Equity attributable to owners of the Company		
Issued capital	28,584	28,584
Reserves	2,351,847	2,316,199
Total equity	2,380,431	2,344,783

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2013

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 2012.

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 2012 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 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>

HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009–2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

The adoption of these new and revised HKFRSs 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 other 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	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of goods	683,336	692,252
Other income and gains		
Bank interest income	7,496	2,719
Interest income from held-to-maturity investments	1,395	2,257
Gain on disposal of financial assets at fair value through profit or loss	8,030	10,535
Foreign exchange gains, net	14,245	–
Government grants	7,102	2,169
Sales of dried meat products	104	162
Others	532	333
	38,904	18,175

5. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	5,402	1,676
Less: Government grants	(351)	(3,000)
Interest capitalised	(658)	(1,120)
	4,393	(2,444)

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	33,480	24,924
Less: amount capitalised	(8,688)	(5,080)
	24,792	19,844
Amortisation of patent	–	285
Amortisation of prepaid land lease payments	1,177	1,012
Impairment of trade receivables	3,028	–

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	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax charge for the period		
– Mainland China	83,123	75,549
Deferred tax	(6,626)	3,609
Total tax charge for the period	76,497	79,158

8. DIVIDENDS

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividend declared and paid for 2012 – HK6.5 cents (2011: HK6.0 cents) per ordinary share	174,680	161,973
Special dividend declared and paid for 2012 – HK3.3 cents (2011: Nil) per ordinary share	88,684	–
	263,364	161,973

Subsequent to the reporting period, the directors resolved the payment of an interim dividend of HK4.7 cents (2012: HK4.5 cents) per ordinary share and a special dividend of HK2.8 cents (2012: HK1.0 cent) per ordinary share.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2013 is based on the profit for the period attributable to owners of the Company of RMB304,598,000 (six months ended 30 June 2012: RMB312,683,000), and the weighted average number of ordinary shares of 3,324,120,000 (six months ended 30 June 2012: 3,322,395,000), in issue during the period ended 30 June 2013.

The calculation of diluted earnings per share amount for the period ended 30 June 2013 is based on the profit for the period attributable to ordinary owners of the Company of RMB304,598,000 (six months ended 30 June 2012: RMB312,683,000). 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 2013, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 3,316,000 (six months ended 30 June 2012: 4,438,000), 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 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 3 months	124,045	174,327
3 to 4 months	3,809	5,896
Over 4 months	13,530	5,771
	141,384	185,994

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:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 1 month	47,256	36,348
1 to 2 months	13,919	2,055
2 to 3 months	496	212
Over 3 months	2,968	2,056
	64,639	40,671

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Business operations were below expectation during the first six months of this year (the “Period”), as consumer sentiment and demand were weakened by the unfavourable economic conditions. The sluggish capital and equity markets continued to take their toll on consumer spending despite the rising income level and living standards of the Chinese nationals. According to the announcement of National Bureau of Statistics of China, the mainland China’s gross domestic product growth decelerated from 7.9% of the last quarter of 2012 to 7.7% and 7.5% respectively in the first quarter and second quarter of 2013. During the first half of the year, because of the incidents of rotting carcasses floating in the Huangpu River and the outbreak of bird-flu, the meat industry grew slowly; the production volume of livestock and poultry was 39.16 million tonnes, decreased by 0.2% from that of the last year. Among which, the production volume of pork was 26.14 million tonnes, increased by 1%.

In line with the broader market environment, sales volume of sausage casing products of the Group recorded a moderate growth. The public concern about food safety remained high ever since the media’s revelation of the use of industrial gelatine in production of medicine capsules in April 2012. An enterprise’s integrity and quality-control efforts are considered by sausage manufacturers and consumers to be important factors when they are choosing high-quality and safe collagen-related products. As a result, companies which can consistently deliver high quality products are in great demand.

Government Policy

The Chinese government recapitulated in its “Twelfth Five-year Plan” that the country produced 79,258,000 tonnes of meat and processed 12,000,000 tonnes, or 15.1% of meat into meat products in 2010. The percentage was much lower than the 50% compared with developed countries, and was far from enough to satisfy the increasing demand of both the urban and rural residents for meat products as the society was undergoing a structural change. To address the issue, the Chinese government sets a target in the “Twelfth Five-year Plan” that 17% of the country’s total meat output be processed into meat products by 2015. This will translate into a 25% increase in the production volume of meat products by 2015 when compared with that of 2010.

The proportion between western-style and Chinese-style meat products will change from the current ratio of 45:55 to 50:50 by 2015. In respect of the planning of meat product processing, the government will step up measures in the country’s large and medium-sized cities as well as developed regions to facilitate the expansion of the production of low-temperature meat products, development of low temperature meat products and the intensive processing of meat products. It will also foster the development and production of refined meat products and quick-frozen convenient meat products, and encourage the integration of the western food culture which emphasizes on nutrition and convenience into the Chinese food culture which cherishes the appearance, smell, taste and shape of food. According to the “Twelfth Five-year Plan”, the Chinese government will also foster

the establishment of distribution system of cold-chain logistics according to the features of various kinds of product in order to effectively ensure the meat product quality. These measures are expected to promote the development of the raw meat and meat product industries.

The above policies and the better economic environment will help boost the country's demand for low temperature meat products, thus fostering the steady expansion of the sausage casing product market.

Business and Operational Review

Shenguan remained to be the largest edible collagen sausage casing manufacturer in Asia. During the Period, the Group continued its investment in improving the automation of production to capture development opportunities in the market, while ensuring the consistency of the high quality of the products. The Group's strong brand recognition, high product quality, sizeable production scale, reliable production and advanced technology enable it to strengthen its business relationships with existing customers and at the same time increase its export sales in overseas markets. These underlined the growth of the Group's sales volume. However, such growth was partly offset by the slower growth in the demand from sausage manufacturers when they were de-stocking raw materials amid a difficult business environment. Other factors that hindered the growth were the lower efficiency experienced by the Group during the transitional period to the extensive usage of whole piece of cattle skin as raw materials, and the interruption to daily operation during the installation period of new heat energy technology. During the Period, sales volume of collagen casings increased by 2.0%

Revenue of the Group was RMB683.3 million for the six months ended 30 June 2013, decreased by 1.3% from RMB692.3 million for the six months ended 30 June 2012 (the "Prior Period"). While domestic sales remained to be the Group's major source of revenue, the growth of sales volume in exports surged significantly and accounted for 7.5% of the total sales. Profit attributable to owners of the Company decreased by 2.6% to RMB304.6 million from RMB312.7 million of the Prior Period. Basic earnings per share of the Group were RMB9.16 cents for the Period (1H2012: RMB9.41 cents).

The Board recommends the payment of an interim dividend for the Period of HK4.7 cents (1H2012: HK4.5 cents) per share and a special dividend of HK2.8 cents (1H2012: HK1.0 cent) per share.

Product Mix

The Group was principally engaged in the manufacture and sale of edible collagen sausage casings, most of which were used for western sausages. During the Period, product innovation and diversification of sausage manufacturers have led to a change in demand for sausage casings of different sizes. The growth in sales volume of exports also drove the change in the Group's product mix. Halal sausage casings were added to

the Group's product portfolio earlier and are currently being sold mainly in the mainland China market. Contribution from sales of these products was small but it is expected to gradually become one of the major revenue contributors in the future.

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. In order to maintain better quality assurance and achieve production cost-effectiveness, the Group started switching to larger pieces of cattle's inner skin for raw material during the Period. Despite the switch, the Group expects to secure a stable supply of cattle's inner skins in the future because it has established good and strong relationships with suppliers over the years.

Cost Control

Currently, the Group owns three production bases in the districts of Fudian, Wangfu and Sifu in Wuzhou, Guangxi. During the Period, the Group continued to see cost pressure which resulted from the increase in unit costs of energy and higher overheads from additional production plants.

To mitigate the impact of the rising cost pressure, the Group strived to implement stringent cost control, enhanced the efficiency and automation of existing production lines and optimized its energy-saving facilities during the Period. In particular, the fourth-generation heat energy system was installed on the production lines during the Period. The benefits of using such energy-efficient and cost-saving system will become manifest in the second half of this year. The Group also capitalized on its research and development ("R&D") expertise to enrich product mix, thus maintaining profitability. The Group also strengthened its centralized procurement management to reduce procurement costs and to increase the beneficial effect of economies of scale. The streamlined production processes, completion of the Group's production bases, relocation of the collagen extraction facilities, and commencement of the cellulose production lines and organic fertilizer production lines also enable further reduction of environmental protection costs for handling residual wastes and decrease in other production costs.

Technological Research & Development

The R&D of new technologies and product is a core competitive advantage 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 customers' specific preferences. Started in last year and after more than one year of development of new products, the Group has now developed collagen casings which are suitable for a variety of fillings. The Group strongly believes that it can maintain its leading position in the market with its dedication to and emphasis on R&D.

As at 30 June 2013, the Group had 31 valid patents granted by the State Intellectual Property Office. Its application for other 14 patents have been accepted by the relevant authorities pending approval. These patented technologies have enabled the Group

to distinguish itself from other peers in the market, and also become the key to raising the entry barrier for competitors. The Group will continue to enhance the production technologies to reduce the production cost.

Quality Control

Quality control is another core competitive strength of the Group. It is particularly important in view of the increasing public concern over food safety. The Group undertakes strict quality control over every single production process to ensure that its products are of high quality and meet all the safety requirements before they are delivered to the customers.

The Group has passed the Assessment of ISO9001:2008 Quality Management System, ISO22000:2005 Food Safety Management System, and QS Food Production License, 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 (the People’s Republic of China) national standards (GB14967–94), sausage casing manufacturing industry standards (SB/T10373–2012) 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 Group’s examination centre for the assessment of raw materials, work in progress, and finished goods continues to operate efficiently to ensure product safety and quality. Currently, the examination centre can detect hazardous substances, including but not limited to toxic materials such as pesticide residues, drug residues, heavy metals and 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 with long term relationships. Over the years, the Group has established its closely-knit yet 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 Period, the Group continued to supply high quality sausage casing products to a number of renowned food product suppliers in the PRC.

Energy Saving

During the Period, the Group adopted and improved the heat energy technology to greatly reduce the use of energy. As at 30 June 2013, 70% production lines has already adopted the new technology and the whole project is expected to be completed by the end of August 2013. With the adoption of this new technology, greater energy-saving will be achieved and operating efficiency will be enhanced.

FINANCIAL ANALYSIS

Revenue

Revenue decreased by 1.3% to RMB683.3 million for the first six months of 2013 from RMB692.3 million for the same period of 2012. Although the total sales volume of collagen casings during the Period is increased by 2.0% as compared to that in the same period of 2012, the average selling price was slightly lower because customers tends to order smaller collagen casings during the Period due to the change of consumer's preference. During the Period, sausage manufacturers were de-stocking raw materials amid a difficult business environment and also resulted in a lower than expected sales of collagen casings.

Cost of sales

Cost of sales increased by 4.8% to RMB289.9 million for the six months of 2013 from RMB276.5 million for the same period of 2012. The increase was driven by the following factors: (i) the cost of raw materials increased by RMB0.3 million due to increased production volume and the extensive use of whole pieces of cattle inner layer skins for raw material; (ii) water, electricity and coal expenses increased by RMB5.1 million mainly caused by the increase in production scale and increase in automation; and (iii) depreciation and repair and maintenance increased by RMB10.7 million due to increased number of production lines.

Gross profit

Gross profit decreased by 5.4% year on year to RMB393.4 million for the Period. In the first quarter of 2013, the extensive use of whole pieces of cattle inner layer skin for raw material was not as smooth as expected and caused some wastage, resulting in a relatively lower gross margin in the first quarter of 2013. This, coupled with the rising factory overheads, drove down the gross profit margin of the Group from 60.1% for the first six months of 2012 to 57.6% for the same period this year. The situation started to improve and the gross profit margin began to stabilize during the second quarter of 2013 when the workers became better versed in the new treatment and processing procedures and technical problems were solved. The Group remained committed to enhancing the efficiency of its existing production lines to meet the rising demand, optimizing its energy saving facilities to reduce costs and leveraging its research and development expertise to enrich product portfolio and maintain profitability.

Other income and gains

Other income and gains increased by 114.1% from RMB18.2 million in the first half of 2012 to RMB38.9 million in the same period of 2013. During the first six months of 2012 and 2013, the Group received government grants of RMB2.2 million and RMB7.1 million, respectively. During the first six months of 2013, the Group recorded foreign exchange gains of RMB14.2 million (1H 2012: Loss of RMB2.0 million).

Selling and distribution costs

Selling and distribution expenses increased by 12.6% from RMB7.7 million in first half of 2012 to RMB8.7 million for the same period of 2013. Selling and distribution expense ratio increased from 1.1% against revenue for the first half of 2012 to 1.3% for the first half of 2013.

Administrative expenses

Administrative expenses increased by 3.7% from RMB36.8 million for the first half of 2012 to RMB38.2 million for the first half of 2013. The increase was mainly caused by a bad debt provision of RMB3.0 million recorded in the first half of 2013.

Finance costs

Finance costs increased from a credit of RMB2.4 million in the first six months of 2012 to a net charge of RMB4.4 million for the Period.

Income tax expenses

Income tax expenses were RMB76.5 million for the Period, as compared to RMB79.2 million for the same period of 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 20.2% and 20.1% to the profit before tax for the six months ended 30 June 2012 and 2013, 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. Additional dividend withholding tax was incurred due to the higher dividend payout ratio of 65.1%. If dividend payout ratio was maintained at the same level as the first half of 2012 of 47.9%, dividend withholding tax will be decreased by approximately RMB6.0 million.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company decreased by 2.6% from RMB312.7 million in the first six months of 2012 to RMB304.6 million in the same period of 2013.

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 2013, the cash and cash equivalents including the pledged deposit amounted to RMB490.7 million, representing a decrease of RMB393.8 million from the end of 2012. Among the cash and bank deposits balance, 97.6% was denominated in Renminbi and the remaining 2.4% was denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2013, the total liabilities of the Group amounted to RMB427.1 million (as at 31 December 2012: RMB537.8 million). As at 30 June 2013, the Group had short-term bank borrowings of RMB100.0 million due within one year all denominated in Renminbi. The Group's bank borrowings were subject to a fixed interest rate currently of 6.0% per annum.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB390.7 million as at 30 June 2013 together with held-to-maturity investments of RMB54.6 million. The debt-to-equity ratio was 4.2% as at 30 June 2013 (as at 31 December 2012: 9.7%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

For the six months ended 30 June 2013, RMB154.3 million was generated from the operating activities, while the net amount spent on investing activities and financing activities were RMB222.9 million and RMB395.9 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 non-pledged time deposits with original maturity of more than three months when acquired. Net cash outflow from financing activities was mainly related to the combined effects of distribution of a final dividend for 2012 by the Company and the repayments 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 has not adopted formal hedging policies.

Capital expenditure

The cash outflow for the capital expenditure used in investing activities during the Period amounted to RMB135.7 million and capital commitments as at 30 June 2013 amounted to RMB15.6 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 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 30 June 2013, none of the Group's assets was pledged.

Contingent liabilities

As at 30 June 2013 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 30 June 2013, the Group had approximately 4,000 employees with a total remuneration of RMB69.1 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, by making 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 to the second half, the PRC's domestic consumption is expected to continue growing slowly. However, the long-term trend of improving living standards and changing lifestyle of the PRC's urban population will continue and drive the growth in demand for processed meat products and substitution for natural sausage casings. The favourable policies as elaborated in the "Twelfth Five Year Plan" report, the central and local governments' support to the meat industry, and the optimization of both the meat industry structure and the product portfolio will further boost the market growth in

the years ahead. In the second half of the year, as the Mid-Autumn Festival and National Day is approaching; the festive atmosphere will trigger a gradual recovery for the Chinese meat consumption market. “Forecast of the global demand and supply of agricultural products” (《全球農產品供需預測》) anticipates growth in the total production volume of poultry and red meat in 2013 and the Ministry of Agriculture also anticipates that the overall production volume of hog will increase in 2013. The Group remains optimistic about the prospect of mainland China’s collagen sausage casing market.

Food safety problems have caused wide attention from consumers. In light of this, the Group will as always continue to ensure the quality and safety of its products with its examination centre, which is equipped with sophisticated examination instruments in the food production industry. The Group will continue to closely monitor the entire production process, ensuring the quality and safety of the raw materials and finished products. We believe that the capacity for quality assurance will continue to be the Group’s competitiveness and be an important entry barrier of the collagen sausage casing industry.

The Group will also continue to increase its effort in controlling and reducing operational costs.

Leveraging the scale of its operations and its core strengths in manufacturing quality collagen sausage casing products, the Group’s efforts in improving the overall performance of its heat energy system in 2013 will effectively lower energy consumption and stabilize product quality. The product performance and application of edible cellulose is satisfactory after trial production in the first half of the year, and is expected to yield better efficiency in the second half of the year. Increased automation of production lines will also greatly reduce the labour intensity, save labour costs and increase productivity. Further product development and extended product application will further broaden the market. The Group believes that it will be able to enhance its leading position by meeting its customers’ demand well and thus generate the most rewarding returns to its shareholders.

OTHER INFORMATION

Interim dividend

The Board resolved the payment of an interim dividend of HK4.7 cents per ordinary share in respect of the Period and a special dividend of HK2.8 cents per ordinary share to shareholders on the register of members of the Company on 11 September 2013. It is expected that the interim dividend and the special dividend will be paid on or around 24 September 2013.

Closure of register of members

The register of members of the Company will be closed from Friday, 6 September 2013 to Wednesday, 11 September 2013 (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, 5 September 2013.

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.

Model Code Set Out in Appendix 10 to the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the members of senior management of the Group.

The Company has made specific enquiry with all the Directors and all the Directors have confirmed that they have complied with the Model Code during the Period. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company.

Corporate Governance Code

Save as disclosed below, the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the Period.

Under code provision A.2.1 of the Code, the roles of chairman and the chief executive 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". This deviates from the code provision A.2.1 of the Code.

Ms. Zhou Yaxian, who acts as the chairman and the president of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 of the Code and will continue to consider the feasibility of appointing a separate chief executive. The Company will make timely announcement if the chief executive has been appointed.

Audit committee

The audit committee of the Company has 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, 19 August 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.