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 2013

RESULTS HIGHLIGHTS

- Achieved revenue of RMB1,654.5 million, slightly increased by 0.4% year over year
- Achieved profit attributable to owners of the Company of RMB771.3 million, increased by 3.1% year over year
- Gross profit margin increased from 58.2% for 2012 to 58.5% for 2013, and improved from 57.6% in the first half of 2013 to 59.1% for the second half of 2013
- Proposed the payment of a final dividend of HK7.0 cents per share and a special dividend of HK4.5 cents per share, dividend payout ratio increased from 55.2% in 2012 to 64.9% in 2013

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 2013 (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 2013 consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 17 March 2014.

Revenue of the Group increased by 0.4% to RMB1,654.5 million as compared to 2012. Profit attributable to owners of the Company rose by 3.1% to RMB771.3 million in 2013. The basic earnings per share attributable to owners of the Company were RMB23.2 cents (2012: RMB22.5 cents).

The Board is pleased to propose a final dividend of HK7.0 cents per share and a special dividend of HK4.5 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 RMB0.78954 to HK$1.00. Accordingly, the total amount of final dividend and special dividend per share equivalent to RMB9.0797 cents, together with the total dividend of HK7.5 cents per share declared in the interim results announcement dated 19 August 2013 (“Interim Results Announcement”) (equivalent to RMB5.9674 cents as stated in the Interim Results Announcement), represents a dividend payout ratio of approximately 64.9%.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	**2013** *RMB'000*	2012 *RMB'000*
REVENUE	*4*	**1,654,492**	1,648,477
Cost of sales		**(687,010)**	(689,255)
Gross profit		**967,482**	959,222
Other income and gains	*4*	**72,597**	70,326
Selling and distribution expenses		**(22,039)**	(20,385)
Administrative expenses		**(77,860)**	(81,201)
Finance costs, net	*5*	**(6,360)**	2,239
PROFIT BEFORE TAX	*6*	**933,820**	930,201
Income tax expense	*7*	**(162,543)**	(182,018)
PROFIT FOR THE YEAR		**771,277**	748,183
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(10,899)**	(2,101)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**760,378**	746,082
Profit attributable to owners of the Company		**771,277**	748,183
Total comprehensive income attributable to owners of the Company		**760,378**	746,082
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	*9*		
Basic (RMB cents per share)		**23.2**	22.5
Diluted (RMB cents per share)		**23.2**	22.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,405,575**	1,243,726
Prepaid land lease payments		**115,634**	106,290
Patent		**–**	–
Contract in progress		**98,082**	91,012
Held-to-maturity investments		**–**	53,193
Deferred tax assets		**31,000**	13,906
Long term prepayments		**28,828**	46,398
Total non-current assets		**1,679,119**	1,554,525
CURRENT ASSETS			
Inventories		**500,306**	205,496
Trade receivables	*10*	**218,075**	185,994
Prepayments, deposits and other receivables		**90,145**	52,127
Held-to-maturity investments		**55,983**	–
Tax recoverable		**17**	19
Pledged deposit		**–**	164,000
Cash and cash equivalents		**641,412**	720,460
Total current assets		**1,505,938**	1,328,096
CURRENT LIABILITIES			
Trade payables	*11*	**108,539**	40,671
Other payables and accruals		**170,305**	205,754
Derivative financial instruments		**–**	2,385
Interest-bearing bank borrowings		**200,000**	167,160
Tax payable		**22,255**	23,709
Total current liabilities		**501,099**	439,679
NET CURRENT ASSETS		**1,004,839**	888,417
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,683,958**	2,442,942

	Notes	**2013**	2012
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**–**	60,000
Deferred income		**38,029**	36,288
Deferred tax liabilities		**1,871**	1,871
Total non-current liabilities		**39,900**	98,159
Net assets		**2,644,058**	2,344,783
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**28,584**	28,584
Reserves		**2,615,474**	2,316,199
Total equity		**2,644,058**	2,344,783

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. BASIS OF PRESENTATION

These financial statements have 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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements. However, the application of HKFRS 13 and HKAS 1 Amendments resulted in additional disclosures in the consolidated financial statements.

(a) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

(b) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The Group has chosen to use the new title ''statement of profit or loss and other comprehensive income'' as introduced by the amendments in these financial statements.

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 a major customer

For the year ended 31 December 2013, revenue generated from a single (2012: single) customer of the Group amounting to RMB596,908,000 (2012: RMB507,242,000) 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:

	2013	2012
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,654,492**	1,648,477
Other income, net		
Bank interest income	**13,407**	8,779
Interest income from held-to-maturity investments	**2,790**	3,636
Sale of dried meat products	**246**	605
Government grants	**22,019**	32,547
Others	**2,232**	1,326
	40,694	46,893
Gains		
Foreign exchange gains, net	**20,006**	2,485
Gain on disposal of financial assets at fair value through profit or loss	**11,897**	20,942
Gain on disposal of an available-for-sale investment	**–**	6
	31,903	23,433
	72,597	70,326

5. FINANCE COSTS, NET

	2013	2012
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**10,193**	7,280
Less: Government grants	**(3,175)**	(6,000)
Interest capitalised	**(658)**	(3,519)
	6,360	(2,239)

6. PROFIT BEFORE TAX

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

	2013	2012
	RMB'000	*RMB'000*
Cost of inventories sold	**295,456**	275,191
Depreciation	**72,977**	52,764
Amortisation of a patent	**–**	285
Amortisation of prepaid land lease payments	**2,355**	2,293

7. INCOME TAX EXPENSE

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 2013 (2012: Nil).

Wuzhou Shenguan Protein Casing Co., Ltd. and Wuzhou Shensheng Collagen Co., Ltd., being the Company's wholly-owned subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are 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).

	2013	2012
	RMB'000	*RMB'000*
Group:		
Current tax charge for the year		
– PRC	**179,637**	186,007
Overprovision in prior year	**–**	(5,398)
Deferred tax	**(17,094)**	1,409
Total tax charge for the year	**162,543**	182,018

8. DIVIDENDS

	2013	2012
	RMB'000	*RMB'000*
Interim dividend – HK4.7 cents (2012: HK4.5 cents) per ordinary share	**124,307**	122,418
Interim special dividend – HK2.8 cent (2012: HK1.0 cents) per ordinary share	**74,055**	27,204
Final dividend proposed subsequent to the reporting period – HK7.0 cents (2012: HK6.5 cents) per ordinary share	**183,717**	174,680
Final special dividend proposed subsequent to the reporting period – HK4.5 cents (2012: HK3.3 cents) per ordinary share	**118,104**	88,684
	500,183	412,986

The proposed final dividend and special dividend 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 amounts is based on the profit for the year attributable to ordinary owners of the Company of RMB771,277,000 (2012: RMB748,183,000), and the weighted average number of ordinary shares of 3,324,120,000 (2012: 3,323,289,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary owners of the Company of RMB771,277,000 (2012: RMB748,183,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 2,912,000 (2012: 3,915,000) assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares.

10. TRADE RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**219,978**	191,111
Due from related companies	**6,898**	3,220
Less: Impairment	**(8,801)**	(8,337)
	218,075	185,994

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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**208,594**	174,327
3 to 4 months	**4,761**	5,896
Over 4 months	**4,720**	5,771
	218,075	185,994

Due from related companies:

	2013	2012
	RMB'000	*RMB'000*
LJK Frozen SDN. BHD. ("LJK") (note (a))	**4,739**	1,537
Ample Company LLC ("Ample Company") (note (b))	**2,159**	1,683
	6,898	3,220

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 jointly controlled by Mr. Wei Cheng and his wife. Mr. Wei Cheng is 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:

	2013	2012
	RMB'000	*RMB'000*
Within 1 month	**74,317**	36,348
1 to 2 months	**30,488**	2,055
2 to 3 months	**437**	212
Over 3 months	**3,297**	2,056
	108,539	40,671

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

12. SHARES CAPITAL

	2013	2012
	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 (2012: 3,324,120,000) ordinary shares of HK$0.01 each	**33,242**	33,242
Equivalent to RMB'000	**28,584**	28,584

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2013, negative economic sentiment in major economies around the world, decelerated economic growth in China, and the effect of bird flu had deeply impacted the livestock cultivation industry in the PRC, and diminishing the overall growth of the country's meat industry. Meanwhile, competition intensified as global players competed more aggressively in emerging markets amid challenging business environment in mature economies. The strengthening Chinese currency made the country's market particularly attractive to enter.

According to the preliminary figure of the National Bureau of Statistics of China (NBS), the mainland China's gross domestic product grew at 7.7% in 2013. As compared to 2012, the country's total production volume of pork, beef, lamb and poultry rose by 1.8% in 2013, production volume of pork rose by 2.8%, much slower than the headline economic growth. In line with the industry environment, sales volume of the Group's sausage casing products was below expectation, but its growth accelerated in the second half of the year to offset the decline in the first half, thanks to the Group's increased efforts to promote its new products and enhance customer service. The improved economic conditions also contributed to the sales growth.

Government Policy

The PRC government increased the efforts to safeguard the food safety and issued series of policies of stimulating the country's demand for low temperature meat products supports the long term development of the meat industry and fosters the steady expansion of the sausage casing product market.

According to the PRC government's "Twelfth Five-year Plan", the country will increase the supply of processed meat products and subsequently 17% of the country's total meat output will be processed into meat products in 2015, up from 15.1% in 2010. This will translate into a 25% increase in the production volume of meat products by 2015 when compared with that of 2010. The proportion of western-style meat products to Chinese-style meat products is projected to change from 45:55 in 2010 to 50:50 by 2015.

In addition to the policy of increasing processed meat supply, the government will step up measures in the country's large and medium-sized cities as well as developed regions to facilitate expansion of the low temperature meat production, 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. Furthermore, the government encourages the integration of the western food culture, which emphasizes nutrition and convenience, into the Chinese food culture, which is particular about the appearance, smell, taste and shape of food. It is also in the "Twelfth Five-year Plan" that the PRC government will 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.

Business and Operational Review

As the largest edible collagen protein sausage casing manufacturer in Asia, the Group continued to invest in the enhancement of its competitive strengths despite difficult market conditions.

During the Year, the Group improved the automation of production and streamlined its production process so as to capture market opportunities, while ensuring the consistency of the products' high quality. Addressing the mounting public concern over food safety globally, the Group also put great emphasis on quality assurance. Dedicated efforts were made consistently during the Year to ensure product quality and safety. The Group continued to sustain business growth with its strong brand recognition, high product quality, sizeable production scale, reliable production and advanced technology. As a result of these developments, the Group recorded a moderate sales growth for the Year.

During the Year, revenue of the Group increased by 0.4% to RMB1,654.5 million, from RMB1,648.5 million for the year ended 31 December 2012. The growth in revenue decelerated mainly because the sausage manufacturers had lowered their stock of raw materials to free up working capital. Meanwhile, negative economic sentiment has hurt spending power of consumers in the first and second tier cities, thus temporarily lower the demand for sausages. These resulted in lower than expected sales of collagen casings. The revenue growth was also hindered by 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 of new heat energy technology. In view of the market situation, the Group promptly increased its efforts in strengthening business relationships with existing customers and stepped up marketing initiatives to promote sales growth in the second half. The country's improving economy in the second half of the Year also helped to boost sausage sales, which in turn spurred the demand for sausage casing products. This resulted in an increase in the sales of sausage casing products in the second half that offset the minor decline in the first half of the year. The Group's enhanced capability to produce collagen sausage casings of stable quality enabled it to take advantage of the market growth.

Profit attributable to the owners of the Company increased by 3.1% to RMB771.3 million for 2013 from RMB748.2 million in 2012.

The Board recommends the payment of a final dividend for the Year of HK7.0 cents (2012: HK6.5 cents) per share and a special dividend for the Year of HK4.5 cents (2012: HK3.3 cents) per share. The payout ratio further increased to 64.9% (2012: 55.2%).

Product Mix

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which are used for producing western sausages. Product innovation and diversification by sausage manufacturers continues to drive the demand for sausage casings of different sizes. In the second half of the Year, the Group had a new breakthrough by launching new products with a higher applicability to suit the market's needs.

Growth in export sales also changed the product mix. During the Year, the total sales to overseas markets accounted for 6.1% of the Group's total sales revenue, rising from 5.5% a year ago. Volume of the Group's exports to the Southeast Asian countries and other emerging economies grew significantly, driving the overall growth of the export operation.

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, and is expected to remain stable going forward as the Group has established good and strong relationships with suppliers over the years. In order to maintain better quality assurance and achieve production cost-effectiveness, the Group started switching to larger pieces of cattle skin for raw material during the Year.

Cost Control

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

To mitigate the rising cost pressure, the Group implemented stringent cost control, enhanced the efficiency and automation of existing production lines and optimized its energy-saving facilities during the Year. Installation of the fourth-generation heat energy system was completed on schedule in August and the benefits became manifest in the second half of the 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 enhance 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 facilities and organic fertilizer production facilities 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. After more than one year of development, the Group has now developed collagen casings with a higher applicability. 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 31 December 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 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/T10373–2012) and corporate standards (Q/WZSG0001S-2012), which has already been put on record. All these certifications strengthen the Group's image as a trustworthy product supplier to its customers.

The Group's examination centre for the assessment of raw materials and finished goods continues to operate efficiently to ensure product safety and quality. Currently, the examination centre can detect hazardous substances, including 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 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 and the United States. 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

By the end of August 2013, all the production lines of the Group have adopted the new heat energy technology. With the adoption of this new technology, greater energy-saving will be achieved and operating efficiency will be enhanced.

FINANCIAL ANALYSIS

Revenue

Revenue increased by 0.4% to RMB1,654.5 million in 2013 from RMB1,648.5 million in 2012. Although the total sales volume of collagen casings during the Year has slightly increased year-on-year, the average selling price was slightly lower because customers tends to order smaller size collagen casings during the Year due to the change of consumers' preference. The sales for the Year was adversely affected by the incidents of rotting carcasses floating in the Huangpu River, the outbreak of bird-flu and the negative economic sentiment in China.

Cost of sales

Cost of sales decreased by 0.3% to RMB687.0 million for 2013 as compared with the previous year. Cost of materials used decreased by 5.5% to RMB295.5 million in 2013 because of the extensive use of whole pieces of cattle inner layer skins, which has been proved to be more cost efficient, together with the internal production of edible cellulose to save costs. In addition, direct labour costs decreased by 10.9% to RMB105.5 million in 2013 due to the increase in automation and redeployment of employees. However, because of higher automation, utilities charges increased by 4.8% to RMB174.4 million in 2013.

Gross profit

Gross profit increased by 0.9% year on year to RMB967.5 million for the Year. 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 overhead due to the installation of new energy system, drove down the gross profit margin of the Group to 57.6% in the first half of 2013. The situation started to improve and the gross profit margin rose to 59.1% in the second half of 2013 when the workers became better versed in the new treatment and processing procedures, efficiency of the new energy system reflected and the internal production of edible cellulose.

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 3.2% from RMB70.3 million in 2012 to RMB72.6 million in 2013. During the Year, foreign exchange gain mainly caused by RMB appreciation increased by RMB17.5 million, but the increase was partly offset by the total government grants received decreased by RMB10.5 million.

Selling and distribution costs

Selling and distribution expenses increased by 8.1% from RMB20.4 million in 2012 to RMB22.0 million in 2013. Selling and distribution expense ratio increased from 1.2% against revenue in 2012 and 1.3% in 2013.

Administrative expenses

Administrative expenses decreased by 4.1% from RMB81.2 million in 2012 to RMB77.9 million in 2013. During the Year, provision for bad debt of RMB0.5 million was recorded.

Finance costs

Finance costs increased from a credit of RMB2.2 million in 2012 to a net charge of RMB6.4 million in 2013. Government subsidy of bank borrowing interests decreased from RMB6.0 million in 2012 to RMB3.2 million in 2013.

Income tax expenses

Income tax expenses were RMB162.5 million in 2013, 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 19.6% and 17.4% to the profit before tax in 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. The decrease in effective tax rate was mainly caused by the smaller amount of dividend withholding tax for the Year because the final and final special dividends are intended to be paid out of the share premium account of Shenguan Holdings (Group) Limited.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 3.1% from RMB748.2 million in 2012 to RMB771.3 million in 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 31 December 2013, the cash and bank balances including the pledged deposit amounted to RMB641.4 million, representing a decrease of RMB243.1 million from the end of 2012. Among the cash and bank balances, 98.5% was denominated in Renminbi and the remaining 1.5% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2013, the total liabilities of the Group amounted to RMB541.0 million (as at 31 December 2012: RMB537.8 million). As at 31 December 2013, the Group had a short-term bank borrowing of RMB200.0 million due within one year and denominated in Renminbi. The Group's bank borrowing was subject to a fixed interest rate at 6% per annum.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB441.4 million as at 31 December 2013 together with held-to-maturity investments of RMB56.0 million. The debt-to-equity ratio was 7.6% as at 31 December 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

In 2013, RMB467.5 million was generated from the operating activities, while the net amount spent on investing activities and financing activities were RMB144.0 million and RMB502.7 million, respectively. Net cash outflow from investing activities were mainly related to the purchase of property, plant and equipment, and increase in prepayment of land lease payments. Net cash outflows from financing activities were mainly related to the combined effects of distribution of a final dividend for 2012 by the Company and an interim dividend for the six months ended 30 June 2013 by the Company.

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.

Capital expenditure
The cash outflow for the capital expenditure used in investing activities during the Period amounted to RMB207.6 million and capital commitments as at 31 December 2013 amounted to RMB113.9 million. Both the capital expenditure and capital commitments were mainly related to the improvement and automation of production lines.

In 2014, the Company has budgeted to spend around RMB100 million to RMB150 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 2013, none of the Group's assets was pledged.

Contingent liabilities
As at 31 December 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 31 December 2013, the Group had approximately 3,900 employees with a total remuneration of RMB130.7 million during the Period. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, the Group offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

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

PROSPECTS
The Group's production base in Guangxi enjoys excellent geographical advantages and preferential policies under the national programme of developing the country's western regions. Meanwhile, the economic development of the areas along the Xijiang River in Guangxi will be put on the agenda of the state's development plan. The Group will also seek to capture the opportunity in the proposed new maritime silk route for the 21st century between China and the ASEAN countries as well as in the proposed Guangdong-Guangxi Cooperation Zone pending government approval. The sustained economic

expansion of the PRC, ongoing urbanization, and rising household income will improve the living standards and change the lifestyle of mainland China's urban population. This will stimulate growth in demand for processed meat products and will facilitate substitution of collagen sausage casings for natural ones.

According to news reports about the Seventh China Cold-chain Conference, the country's cold-chain industry will invest RMB7 billion to upgrade its technology and equipment. Meanwhile, the cold-chain business is predicted to grow by about 20% in 2014. The expansion of the cold-chain industry will benefit the development of the market for low temperature meat products and will foster the expansion of the market from cities to townships and rural areas. Meanwhile, the central and local governments' support and the optimization of both the meat industry structure and product portfolio are crucial to the industry's long-term development. As such, the Group remains optimistic about the prospects of mainland China's collagen sausage casing market in 2014.

The Group has successfully completed a year-long programme to enhance internal management, streamline production process and improve efficiency. The move enables it to adapt quickly, efficiently and effectively to market changes. It also greatly improved the capability to maintain the consistency of product quality in the second half of 2013. In 2014, the Group will keep improving internal management, solve the issues arised due to the rapid development during previous years, and stabilise the business fundamentals. The Group will try to increase sales and market share in its home market. Meanwhile, it will step up efforts to explore new overseas markets and strengthen sales in existing foreign markets. The Group will seek to strengthen cooperation with its customers to develop and manufacture better products to suit market's needs.

Technical support has become more important as part of the manufacturing industry's customer service. In 2014, the Group plans to expand the customer service team and provide necessary training to them so that the team will be able to provide better after-sales services to the customers.

In addition, the Group will continue to improve production efficiency and minimize operation costs by reviewing every procedure of its production process and enhancing new cost control measures. Key performance indicators will be established for every major procedure, so that the production efficiency of each of them can be assessed.

The Group will also enhance its internal solid waste handling process to reduce environmental protection expenses. The Group will raise the utilization rate of its fertilizer production facilities, which has commenced operation since 2012. These facilities make use of the cattle's skin fragments, residual collagen and residual sausage casings to produce an organic fertilizer, achieving the purposes of saving environmental protection expenses and comprehensive utilisation.

Edible cellulose is an important raw material used for producing collagen casings. In order to ensure stable supply and quality of that raw material, the Group has started to produce edible cellulose internally. In 2014, the Group will continue to expand the production capacity of edible cellulose, so that the internal needs will be fully satisfied, and in the long run, these products can be sold to external parties to generate additional revenue.

The Group is confident that its investment in business expansion and operation improvement will help reinforce its leading position and generate good returns to its shareholders.

OTHER INFORMATION

Dividends

The Board recommended the payment of a final dividend of HK7.0 cents per ordinary share and a special dividend of HK4.5 cents per ordinary share in respect of the Year to the shareholders whose names appear on the register of members of the Company on 27 May 2014. 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 11 June 2014.

Change of Address of Hong Kong Branch Share Registrar and Transfer Office

With effect from 31 March 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Branch Share Registrar"), will change its address from 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong to the following address:–

Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

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 19 May 2014 (Monday), the register of members of the Company will be closed from 15 May 2014 (Thursday) to 19 May 2014 (Monday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 14 May 2014 (Wednesday). 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 23 May 2014 (Friday) to 27 May 2014 (Tuesday), both dates inclusive. The record date will be 27 May 2014 (Tuesday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 22 May 2014 (Thursday). 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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014), 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.

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 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, 17 March 2014

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.