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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)

2014 INTERIM RESULTS ANNOUNCEMENT

RESULTS HIGHLIGHTS

- Achieved revenue of RMB670.9 million, slightly decreased by 1.8% year over year
- Achieved profit attributable to owners of the Company of RMB278.3 million, decreased by 8.6% year over year. Excluding the effect of the foreign exchange gain caused by the currency revaluation of intercompany current account and settlement of dividend, net profit decreased by 4.2% only
- Despite slight profit decline, the Board proposed the payment of an interim dividend of HK4.3 cents per share and a special dividend of HK3.2 cents per share, total dividend per share was maintained at HK7.5 cents, same amount as first half of 2013, dividend payout ratio was increased to 71.1%
- Gross profit margin decreased to 54.9%, mainly caused by the drop in average selling price due to the offering of discount for old formula products, and the rising labour salary and benefits

The board (the “Board”) of directors (the “Directors”) of Shenguan Holdings (Group) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014 (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 2014 condensed consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 18 August 2014.

Revenue of the Group was RMB670.9 million for the six months ended 30 June 2014, decreased by 1.8% from RMB683.3 million for the six months ended 30 June 2013 (the “Prior Period”). Profit attributable to owners of the Company decreased by 8.6% to RMB278.3 million from RMB304.6 million of the Prior Period. Excluding the effect of the foreign exchange gain caused by the currency revaluation of intercompany current account and settlement of dividend, net profit decreased by 4.2% only. Basic earnings per share of the Group were RMB8.37 cents for the Period (1H2013: RMB9.16 cents).

The Board proposes the payment of an interim dividend for the Period of HK4.3 cents (1H2013: HK4.7 cents) per share and a special dividend of HK3.2 cents (1H2013: HK2.8 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 RMB0.79386 to HK\$1.00. Accordingly, the aggregate amount of interim dividend per share and special dividend per share equivalent to RMB5.954 cents, representing a dividend payout ratio of 71.1%.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
REVENUE	4	670,936	683,336
Cost of sales		<u>(302,615)</u>	<u>(289,911)</u>
Gross profit		368,321	393,425
Other income and gains	4	16,471	38,904
Selling and distribution costs		(8,866)	(8,683)
Administrative expenses		(41,838)	(38,158)
Finance costs	5	<u>(4,750)</u>	<u>(4,393)</u>
PROFIT BEFORE TAX	6	329,338	381,095
Income tax expense	7	<u>(51,036)</u>	<u>(76,497)</u>
PROFIT FOR THE PERIOD		278,302	304,598
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<u>(1,183)</u>	<u>(5,899)</u>
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>(1,183)</u>	<u>(5,899)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>277,119</u>	<u>298,699</u>

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Notes			
	Profit attributable to owners of the Company	278,302	304,598
	Total comprehensive income attributable to owners of the Company	277,119	298,699
	EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
	Basic (RMB cents per share)	8.37	9.16
	Diluted (RMB cents per share)	8.37	9.15

Details of dividends are disclosed in note 8 to the unaudited interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

		30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,372,858	1,405,575
Prepaid land lease payments		114,441	115,634
Contract in progress		120,082	98,082
Deferred tax assets		43,110	31,000
Long term prepayments		17,912	28,828
Total non-current assets		1,668,403	1,679,119
CURRENT ASSETS			
Inventories		693,116	500,306
Trade and bills receivables	10	152,972	218,075
Prepayments, deposits and other receivables		68,173	90,145
Held-to-maturity investments		57,378	55,983
Tax recoverable		–	17
Pledged deposit		330,000	–
Cash and cash equivalents		465,906	641,412
Total current assets		1,767,545	1,505,938
CURRENT LIABILITIES			
Trade payables	11	67,716	108,539
Other payables and accruals		110,918	170,305
Tax payable		13,324	22,255
Interest-bearing bank borrowings		585,917	200,000
Total current liabilities		777,875	501,099
NET CURRENT ASSETS		989,670	1,004,839
TOTAL ASSETS LESS CURRENT LIABILITIES		2,658,073	2,683,958

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
NON-CURRENT LIABILITIES		
Deferred income	36,689	38,029
Deferred tax liabilities	1,871	1,871
Total non-current liabilities	38,560	39,900
Net assets	2,619,513	2,644,058
EQUITY		
Equity attributable to owners of the Company		
Issued capital	28,584	28,584
Reserves	2,590,929	2,615,474
Total equity	2,619,513	2,644,058

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2014

1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the “Company”) was incorporated in the Cayman Islands 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 2013.

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 2013 and in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, 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 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

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 the unaudited condensed interim financial information.

The Group has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of manufacture and sale of edible collagen sausage casing products. For management purposes, the Group operates in one business unit based on its products, and has one reportable operating segment which is the collagen casing segment.

No operating segments have been aggregated to form the above reportable operating segment.

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of goods	670,936	683,336
Other income and gains		
Bank interest income	5,257	7,496
Foreign exchange gains, net	–	14,245
Government bond interest income	1,395	1,395
Government grants	2,520	7,102
Gain on disposal of financial assets at fair value through profit or loss	6,465	8,030
Sales of dried meat products	241	104
Others	593	532
	16,471	38,904

5. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans	6,776	5,402
Less: Government grants	(2,026)	(351)
Interest capitalised	–	(658)
	4,750	4,393

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	43,947	33,480
Less: Amount capitalised	(18,259)	(8,688)
	25,688	24,792
Amortisation of prepaid land lease payments	1,193	1,177
Impairment of trade receivables	1,317	3,028
Loss on disposal of items of property, plant and equipment	16	142
Fair value loss of derivative instruments, net – transaction not qualifying as hedges	–	2,906

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.

Wuzhou Shenguan Protein Casing Co., Ltd. and Wuzhou Shenshang 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 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).

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax charge for the period		
– Mainland China	63,141	83,123
Deferred tax	(12,105)	(6,626)
Total tax charge for the period	51,036	76,497

8. DIVIDENDS

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividend declared and paid for 2013 – HK7.0 cents (2012: HK6.5 cents) per ordinary share	183,717	174,680
Special dividend declared and paid for 2013 – HK4.5 cents (2012: 3.3 cents) per ordinary share	118,104	88,684
	301,821	263,364

Subsequent to the reporting period, the directors resolved the payment of an interim dividend of HK4.3 cents (2013: HK4.7 cents) per ordinary share and a special dividend of HK3.2 cents (2013: HK2.8 cent) per ordinary share.

The proposed interim 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 extraordinary general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2014 is based on the profit for the period attributable to owners of the Company of RMB278,302,000 (six months ended 30 June 2013: RMB304,598,000), and the weighted average number of ordinary shares of 3,324,120,000 (six months ended 30 June 2013: 3,324,120,000) in issue during the period ended 30 June 2014.

The calculation of diluted earnings per share amount for the period ended 30 June 2014 is based on the profit for the period attributable to ordinary owners of the Company of RMB278,302,000 (six months ended 30 June 2013: RMB304,598,000). 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 2014, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 2,587,000 (six months ended 30 June 2013: 3,316,000) 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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 3 months	108,090	208,594
3 to 4 months	9,731	4,761
Over 4 months	35,151	4,720
	152,972	218,075

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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 month	40,959	74,317
1 to 2 months	22,676	30,488
2 to 3 months	1,060	437
Over 3 months	3,021	3,297
	67,716	108,539

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

China's economy grew at a relatively steady pace during the first half of 2014, with steady improvement on structural adjustment and good progress on restructuring. According to the preliminary figure of the National Bureau of Statistics of China, the gross domestic product grew at 7.4% in the first half of 2014. The country's disposable income per capita, excluding price fluctuations, rose by 8.3%. Although the global meat industry was growing at a slow pace, China, the largest meat producing country in terms of total volume, only achieved a moderate growth for its meat industry in the first half of 2014. The National Bureau of Statistics of China stated that the output of pork, beef, mutton and poultry increased by 1.7% to 40.03 million tons. In particular, the output of pork was 27.05 million tons, up by 3.0%.

In view of the current slow growth of the meat industry, the Group strives to overcome the unfavourable factors brought by increasing costs, such as raw material costs, cost of sales, finance costs and administrative costs, as well as the rising demand for fresh meat due to declining pork prices during the Period. The Group has implemented measure which include actively adjusting new technology and introduction of new product, expanding customer base and exploration of new markets, and retaining important customers, such that the Group's sales of collagen sausage casings recorded a single digit growth in volume during the Period, which is in line with those of the world's other major collagen sausage casing products manufacturers.

Government Policy

The Chinese government sustained stable policies to achieve reasonable economic growth during the Period while forging ahead with reforms in various economic and social development, which is in line with its macroeconomic policies, liberalized the markets and accelerated the structural transformation. The nation aimed to establish its fundamental public service system, improve people's livelihoods, enhance the quality and efficiency of its economic development, and sustain its growth and social harmony. Recently, the PRC government introduced a series of policies in favour of both current environment and long-term developments, including the reform of the administrative system to curb the power of bureaucrats and bring good prospectus of markets, and mixed-ownership economy to encourage the growth of private capital. Earlier, the government launched policies to foster the development and production of refined meat products and quick-frozen convenient meat products, and also initiated to strengthen the distribution system of cold-chain logistics. As such, China's steady economic growth will help to promote the development of the meat industry.

Business and Operational Review

Shenguan continues to strive to maintain its leading position as Asia's largest edible collagen protein sausage casing manufacturer. In early 2014, the Group has formulated in its 2014 production and operation plans. Under the new plan, a core direction was set. The Group will "consolidate and develop markets, with core focus on on-site production management, equipment management and cost management; and at the same time strictly executing internal control while promoting the Company's core competencies." As such, The Group will enhance customer tracking and services by adjusting the Company's sales and market strategies and strengthening customer management. It will also increase equipment operating ability and management level of the company staff by implementing standardized production procedures, assigning job responsibilities and initiating staff training for different job duties. The Group will also invest financial resources to modify and improve its production lines and development new sausage casing products with stronger adaptability.

During the first half of 2014, the Group's sales of collagen sausage casings decreased slightly by 1.8%, despite a single-digit growth in sales volume. The decrease in revenue was mainly attributable to the decline in average selling price of the Group's products as old-version products were sold at discount during the first half of 2014. The average selling price started to recover in June, as the old-version inventories were mostly sold during the promotion period above. Moreover, exports to overseas markets declined as currency depreciations in Latin American countries dragged down sales in that region and political instability dragged down sales volume in Southeast Asian countries. The total sales to overseas markets accounted for 5.1% of the Group's total sales revenue for the first half of 2014, decreasing from 7.5% for the corresponding period of last year.

During the Period, revenue of the Group decreased by 1.8% to RMB670.9 million, from RMB683.3 million in the prior Period. The production problem that arose from the transition 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, which had previously hindered sales growth in 2013, was fully resolved. The Group's efforts in improving production efficiency and operating efficiency also helped to save cost and kept operating margins relatively stable. Profit attributable to owners of the Company decreased by 8.6% to RMB278.3 million for the first half of 2014 from RMB304.6 million in the prior Period. Excluding the effect of the foreign exchange gain caused by the currency revaluation of intercompany current account and settlement of dividend, net profit decreased by 4.2% only.

The Board recommends the payment of an interim dividend of HK4.3 cents (1H2013: HK4.7 cents) per share and a special dividend of HK3.2 cents (1H2013: HK2.8 cents) per share for the Period. The payout ratio was 71.1% (2013: 65.1%).

Product Mix

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which were used for the production of western sausages. Product innovation and diversification by sausage manufacturers continued to drive the demand for sausage casings of different sizes. The Group also made great effort in enhancing internal management, streamlining production process and improving efficiency. After the launch of new product in 2013 and the clearance of the old formula products will almost complete, the product mix was improved in terms of profitability and adaptability, the gross profit margin is expected to improve in the second half of 2014.

Moreover, the Group started to produce edible cellulose in the second half of 2013 and continued to expand production of this raw material. The production is entirely for internal use during the Period and partly offset the increase in production costs due to the increase in price of other raw materials.

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 in the coming years 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 has switched to larger pieces of cattle skin for raw material since 2013.

Cost Control

The Group is committed to optimizing operating efficiency at its three production bases in the districts of Fudian, Wangfu and Sifu in Wuzhou, Guangxi by making persistent efforts to implement stringent cost control, enhance operating efficiency, increase automation of existing production lines and optimize energy-saving facilities. Installation of the fourth-generation heat energy system, which was completed in August of 2013, has been bringing down the unit energy cost. The overhead costs will be lowered as the centralized procurement management and the economies of scale will continue to help reduce procurement costs. The commencement of the cellulose production facilities and organic fertilizer production facilities also reduced the Group's environmental protection costs. This has partly offset the increase in raw material costs and direct labour costs of the Group during the first half of 2014.

Technological Research & Development

The research and development of new technologies and product is a core competitive advantage of the Group. The Group participated in the preliminary stages of the research and development 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 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 the research and development.

As at 30 June 2014, the Group had 31 valid patents granted by the State Intellectual Property Office. Its application for other 16 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. Up to 30 June 2014, the Group's production information system project has been appraised by the experts from Wuzhou Science Bureau, the heat energy technology has obtained the technology advancement award from Wuzhou Government, and another two projects have been included in Guangxi Technology Program.

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 (the People's Republic of China) national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2004) and corporate standards (Q/WZSG0001S-2012), which have 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 and finished goods continued to operate efficiently, the Group has established a comprehensive system of assessment, the scope and technology of the assessment has been further improved, in order to ensure product safety and quality.

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 first half of 2014, the Group continued to supply high quality sausage casing products to a number of renowned food product suppliers in the PRC.

FINANCIAL ANALYSIS

Revenue

Revenue decreased by 1.8% to RMB670.9 million for the first half of 2014 from RMB683.3 million for the same period of 2013. Although the total sales volume of collagen casings during the first half of 2014 increased by a single digit, the average selling price was lower. Since July 2013, the Group has changed the formula to produce new products with better adaptabilities, and in order to clear up the inventory produced by the old formula, the Group offered discounts to the customers for the old formula products, hence the average selling price during the first half of 2014 was lower as comparing to the same period of 2013. The low pork price in the PRC during January to April 2014 also adversely affected the sales volume. Because of the low pork price, consumers prefer to purchase meat instead of meat products such as sausages, which in turn affected the demand of casings.

Cost of sales

Cost of sales increased by 4.4% to RMB302.6 million for the first half of 2014 from RMB289.9 million for the same period of 2013. The increase of cost of sales was generally in line with the increase in sales volume. Cost of materials used increased by 9.4% to RMB136.2 million for the first half of 2014 because of the increase in sales volume and general inflation in raw material price. In addition, direct labour costs increased by 10.9% to RMB49.2 million for the first half of 2014 due to the increase in salary and labour benefit. However, because of energy saving system installed in August 2013, utilities charges decreased by 3.1% to RMB71.4 million for the first half of 2014.

Gross profit

Gross profit decreased by 6.4% to RMB368.3 million for the first half of 2014 from RMB393.4 million for the same period of 2013. The gross profit margin decreased from 57.6% for the first half of 2013 to 54.9% for the Period. The decrease in gross profit margin was mainly caused by the drop in average selling price due to the offering of discount for old formula products, and the rising labour salary and benefit. 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 decreased by 57.7% to RMB16.5 million for the first half of 2014 from RMB38.9 million for the same period of 2013. During the first half of 2013, because of appreciation of Renminbi against Hong Kong dollars, there was a foreign exchange gain caused by the currency revaluation of intercompany current account and settlement of dividend amounted to RMB14.2 million. There was no such gain for the same period of 2014 due to depreciation of Renminbi against Hong Kong dollars. In addition, government grants decreased by RMB4.6 million.

Selling and distribution costs

Selling and distribution expenses increased slightly by 2.1% to RMB8.9 million for the first half of 2014 from RMB8.7 million for the same period of 2013. Selling and distribution expense ratio remained stable at 1.3% against revenue for the first half of 2013 and the first half of 2014.

Administrative expenses

Administrative expenses increased by 9.6% to RMB41.8 million for the first half of 2014 from RMB38.2 million for the first half of 2013. The increase in administrative expense was mainly due to the increase in salary and benefit of administrative staff and the increase of RMB1.9 million in donations to charity parties in the PRC.

Finance costs

Finance costs increased by 8.1% to RMB4.8 million for the first half of 2014 from RMB4.4 million for the first half of 2013. The increase in finance costs was caused by a new bank borrowing of HK\$385.0 million (equivalent to RMB305.6 million) secured by a fixed deposit of RMB330 million.

Income tax expenses

Income tax expenses were RMB51.0 million for the first half of 2014, as compared to RMB76.5 million for the same period of 2013. 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 and the applicable tax rate for Wuzhou Shenguan was 15%.

The Group's effective tax rates were charged at 20.1% and 15.5% to the profit before tax for the first half of 2013 and 2014, respectively. The difference between the effective tax rates and the applicable tax rates was mainly 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 absence of dividend withholding tax for the Period because the interim and interim special dividends for the six months ended 30 June 2014 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 decreased by 8.6% to RMB278.3 million for the first half of 2014 from RMB304.6 million for the first half of 2013. If the effect of the foreign exchange gain caused by the currency revaluation of intercompany current account and settlement of dividend was excluded, net profit decreased by 4.2% only.

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 2014, the cash and cash equivalents together with the pledged deposit amounted to RMB795.9 million, representing an increase of RMB154.5 million from the end of 2013. Among these balances, 98.0% was denominated in Renminbi and the remaining 2.0% was denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2014, the total liabilities of the Group amounted to RMB816.4 million (as at 31 December 2013: RMB541.0 million). As at 30 June 2014, the Group had a short-term bank borrowing of RMB283.0 million denominated in Renminbi, and a short-term bank borrowing of HK\$385.0 million (equivalent to RMB305.6 million) denominated in Hong Kong dollars. The bank borrowing denominated in Hong Kong dollars was subject to an interest rate of HIBOR plus 1% per annum and was secured by a fixed deposit of RMB330.0 million yielding 4.675% per annum.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB210.0 million as at 30 June 2014 together with held-to-maturity investments of RMB57.4 million. The debt-to-equity ratio was 22.4% as at 30 June 2014 (as at 31 December 2013: 7.6%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

For the first half of 2014, RMB143.2 million and RMB71.1 million were generated from the operating activities and financing activities, respectively, while the net amount spent on investing activities was RMB380.1 million. Net cash inflow from financing activities was mainly related to the combined effects of additions in bank borrowings, which was partly offset by the distribution of final dividend for 2013. Net cash outflow from investing activities was mainly related to the purchase of property, plant and equipment, and a cash outflow of RMB330 million related to the opening of a pledged fixed deposit account, which is not classified as cash and cash equivalent in the cash flow statements under the accounting standards.

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 RMB66.6 million and capital commitments as at 30 June 2014 amounted to RMB134.0 million. Both the capital expenditure and capital commitments were mainly related to the improvement and enhancement of production facilities.

The Company has budgeted to spend around RMB100.0 million to RMB150.0 million for capital expenditure for the year 2014.

Pledge of assets

As at 30 June 2014, RMB330 million of bank deposit was pledged to secure a bank borrowings of HK\$385.0 million (equivalent to RMB305.6 million.)

Contingent liabilities

As at 30 June 2014 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 2014, the Group had approximately 3,900 employees with a total remuneration of RMB101.7 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

Sustained economic expansion, 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. With the deepened structural reform of China's economy, and the improved industrialization and mechanization, the process of eliminating outdated technology and production capacity will further speed up, thus will facilitate substitution of artificial sausage casings for natural ones.

The Group's production base in Guangxi enjoys excellent geographical advantages and preferential policies under the development plan of the country's western regions. Recently, according to the reply from the State Council of the PRC about the planning of Zhujiang-Xijiang Economic Belt Development Plan, the Zhujiang-Xijiang Economic Belt Development Plan was raised to a national level strategy. The policies, projects, financial resources, system needs for the Zhujiang-Xijiang Economic Belt Development Plan will be actively supported by the country. Wuzhou, situated by the riverside of Xijiang, will enjoy preferential policies brought by the development of the Zhujiang-Xijiang Economic Belt. The Group will seize the new development opportunity, and remains optimistic about the prospects of mainland China's collagen sausage casing market in the remainder of 2014.

Looking forward in the second half of 2014, the Group expects the gross profit margin will be improved after most of the old formula products have been sold during the first half of 2014. It will strive to sustain long-term sales growth by developing the Chinese market further and by expanding overseas exports. The Group will also seek to strengthen cooperation with its customers to develop and manufacture better products to suit market's needs. To support the development of its growing business, the Group will continue to expand the customer service team and provide necessary training for it to enable good after-sales services. The Group will also invest to upgrade its raw material processing facilities and sewage water treatment system in order to prepare for long-term development.

Edible cellulose is an important accessory material used for producing collagen casings. In order to ensure stable supply and quality of that raw material, the Group started to produce its own edible cellulose internally and will continue to expand the production capacity of edible cellulose. The products is currently dedicated entirely to satisfying internal needs, but in the long run, will aim to expand revenue stream by selling extra output to external parties. The Group will also continue to invest in collagen extraction and research and development to expand the usage of its core technology.

The Group spares no effort to improve production efficiency and minimize operating costs and it will continue to enhance its internal solid industrial waste handling process to reduce environmental protection expenses to prepare for expansion in the future.

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

Proposed amendments to the Articles of Association

The Board proposes a special resolution at the forthcoming extraordinary general meeting of the Company for the amendments to the articles of association of the Company (the “Articles”) in respect of the payment of interim dividends and special dividends out of share premium account of the Company (in addition to out of profit) in order to give greater flexibility to the Board to pay interim and special dividends.

The proposed amendments to the Articles are subject to shareholders’ approval at the extraordinary general meeting by way of special resolutions. The extraordinary general meeting of the Company will be held on Monday, 6 October 2014 (the “EGM”).

A circular containing, amongst other things, further information on the proposed amendments to the Articles, together with a notice convening the EGM and a proxy form, will be despatched to the shareholders as soon as practicable.

Payment of interim and special dividends

The Board recommended the payment of an interim dividend of HK4.3 cents per ordinary share in respect of the Period and a special dividend of HK3.2 cents per ordinary share to shareholders on the register of members of the Company on 14 October 2014 out of the share premium account of the Company subject to the approval by the shareholders at the EGM of such payment of interim and special dividends and of amendments to the Articles mentioned above. It is expected that the interim dividend and the special dividend will be paid on or around 30 October 2014.

Closure of register of members

For the purposes of determining the shareholders’ eligibility to attend and vote at the EGM to be held on 6 October 2014 (Monday), the register of members of the Company will be closed from 3 October 2014 (Friday) to 6 October 2014 (Monday), both days inclusive, during which period no transfer of shares in the Company will be effected. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 30 September 2014 (Tuesday). For determining entitlement to the interim and special dividends (if approved at the forthcoming EGM and subject to the amendments to the Articles being approved by the shareholders), the register of members of the Company will be closed from 10 October 2014 (Friday) to 14 October 2014 (Tuesday), both days inclusive, during which period no transfer of shares in the Company will be effected. The record date for the payment of interim and special dividends will be 14 October 2014 (Tuesday). The latest

time to lodge transfer documents for registration will be at 4:30 p.m. on 9 October 2014 (Thursday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the EGM, and to qualify for the interim and special dividend (if approved at the EGM and subject to the amendments to the Articles being approved by the shareholders), 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above respectively.

Retirement of Executive Director

Ms. Cai Yueqing, the former executive Director, retired from the Board as executive Director with effect from 1 June 2014 due to reaching the age of retirement. After her retirement, Ms. Cai has remained as a vice president of the Company and is responsible for production management and quality control of the Group.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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, 18 August 2014

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, 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.