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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)

2015 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2015	2014
	RMB million	RMB million
Financial highlights		
Revenue	435.7	670.9
Gross profit	219.4	368.3
Profit before tax	188.2	329.3
Income tax expense	(34.5)	(51.0)
Profit for the period attributable to owners of the Company	153.7	278.3
Basic earnings per share, (RMB cents per share)	4.67	8.37
Diluted earnings per share, (RMB cents per share)	4.67	8.37
Financial ratios		
Gross profit margin	50.3%	54.9%
Net profit margin	35.3%	41.5%

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 2015 (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 2015 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 21 August 2015.

Revenue of the Group was RMB435.7 million for the Period, decreased by 35.1% from RMB670.9 million for the six months ended 30 June 2014 (the “Prior Period”). Profit attributable to owners of the Company decreased by 44.8% to RMB153.7 million from RMB278.3 million of the Prior Period. Basic earnings per share of the Group were RMB4.67 cents for the Period (1H2014: RMB8.37 cents).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Notes	(Unaudited)	(Unaudited)
		RMB'000	RMB'000
REVENUE	4	435,691	670,936
Cost of sales		(216,337)	(302,615)
Gross profit		219,354	368,321
Other income and gains	4	24,614	16,471
Selling and distribution expenses		(5,713)	(8,866)
Administrative expenses		(42,162)	(41,838)
Finance costs	5	(7,864)	(4,750)
PROFIT BEFORE TAX	6	188,229	329,338
Income tax expense	7	(34,546)	(51,036)
PROFIT FOR THE PERIOD		153,683	278,302
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		(1,760)	(1,183)
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(1,760)	(1,183)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		151,923	277,119

		Six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	Note		
Profit attributable to:			
Owners of the parent		153,735	278,302
Non-controlling interests		(52)	–
		<u>153,683</u>	<u>278,302</u>
 Total comprehensive income attributable to:			
Owners of the parent		151,975	277,119
Non-controlling interests		(52)	–
		<u>151,923</u>	<u>277,119</u>
 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENTS			
Basic (RMB cents per share)	9	<u>4.67</u>	<u>8.37</u>
 Diluted (RMB cents per share)		<u>4.67</u>	<u>8.37</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

		30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,307,910	1,338,270
Prepaid land lease payments		124,351	122,292
Contract in progress		124,345	124,249
Intangible assets		4,542	–
Deferred tax assets		52,508	52,126
Long term prepayments		24,436	6,866
Total non-current assets		1,638,092	1,643,803
CURRENT ASSETS			
Inventories		986,099	847,065
Trade and bills receivables	10	98,858	199,639
Prepayments, deposits and other receivables		64,486	62,808
Tax recoverable		293	–
Pledged deposits		559,154	546,044
Cash and cash equivalents		209,863	399,585
Total current assets		1,918,753	2,055,141
CURRENT LIABILITIES			
Trade payables	11	36,860	98,178
Other payables and accruals		75,493	105,467
Interest-bearing bank borrowings		698,518	783,144
Tax payable		29,305	11,632
Total current liabilities		840,176	998,421
NET CURRENT ASSETS		1,078,577	1,056,720
TOTAL ASSETS LESS CURRENT LIABILITIES			
		2,716,669	2,700,523

		30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
	Note		
NON-CURRENT LIABILITIES			
Deferred income		34,005	35,347
Deferred tax liabilities		3,184	29,571
Total non-current liabilities		37,189	64,918
Net assets		2,679,480	2,635,605
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	28,326	28,425
Reserves		2,651,206	2,607,180
		2,679,532	2,635,605
Non-controlling interests		(52)	–
Total equity		2,679,480	2,635,605

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

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 and pharmaceutical 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 consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2014.

The accounting policies adopted in the preparation of the unaudited condensed interim financial information are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, except for the adoption of (i) accounting for business combination; and (ii) the revised standards and interpretations for the first time for the current period financial information, as further explained below:

(i) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

(ii) Revised standards and interpretations:

Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i>
<i>Annual Improvements</i>	Amendments to a number of HKFRSs
<i>2010-2012 Cycle</i>	
<i>Annual Improvements</i>	Amendments to a number of HKFRSs
<i>2011-2013 Cycle</i>	

The adoption of these revised standards and interpretations has had no significant financial effect on this unaudited condensed interim financial information and there have been no significant changes to the accounting policies applied in 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 and pharmaceutical products. Since over 90% of the Group's revenue is derived from the sale of edible collagen sausage casing products, no operating segments have been aggregated to form the above reportable operating segment.

Information about products

The revenue of the two major products are as below:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Collagen sausage casing products	427,756	670,936
Pharmaceutical products	7,935	–
	435,691	670,936

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of goods	435,691	670,936
Other income and gains		
Bank interest income	11,200	5,257
Interest income from held-to-maturity investments	–	1,395
Gain on disposal of financial assets at fair value through profit or loss	7,653	6,465
Foreign exchange gains, net	769	–
Government grants	1,377	2,520
Sales of dried meat products	398	241
Provisional gain on bargain purchase (note 13)	2,586	–
Others	631	593
	24,614	16,471

5. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans	11,650	6,776
Less: Government grants	(3,786)	(2,026)
	7,864	4,750

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	47,195	43,947
Less: Amount capitalised	(23,494)	(18,259)
	23,701	25,688
Amortisation of prepaid land lease payments	1,513	1,193
Impairment of trade receivables	5,241	1,317
Loss on disposal of items of property, plant and equipment	6	16

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group domiciled and operate.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

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 Shensheng Collagen Products 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 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).

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax charge for the period		
– PRC	32,822	63,141
– Hong Kong	658	–
Deferred tax	1,066	(12,105)
Total tax charge for the period	34,546	51,036

8. DIVIDENDS

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividend declared and paid for 2014 – HK4.1 cents (2013: HK7.0 cents) per ordinary share	106,928	183,717
Special dividend declared and paid for 2014 – Nil (2013: HK4.5 cents) per ordinary share	–	118,104
	106,928	301,821

The directors of the Company did not propose any interim dividend in respect of the reporting period.

For the six months ended 30 June 2014, the directors proposed an interim dividend of HK4.3 cents and a special dividend of HK3.2 cents per ordinary share.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings per share amount for the period ended 30 June 2015 is based on the profit for the period attributable to owners of the parent of RMB153,735,000 (six months ended 30 June 2014: RMB278,302,000) and the weighted average number of ordinary shares of 3,291,128,000 (six months ended 30 June 2014: 3,324,120,000) in issue during the period ended 30 June 2015.

The calculation of diluted earnings per share amount for the period ended 30 June 2015 is based on the profit for the period attributable to ordinary owners of the parent of RMB153,735,000 (six months ended 30 June 2014: RMB278,302,000). 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 2015, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 768,000 (six months ended 30 June 2014: 2,587,000) 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 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Within 3 months	91,493	175,759
3 to 4 months	2,430	3,824
Over 4 months	4,935	20,056
	98,858	199,639

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 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Within 1 month	15,737	40,680
1 to 2 months	10,092	47,412
2 to 3 months	4,757	6,317
Over 3 months	6,274	3,769
	36,860	98,178

12. SHARE CAPITAL

Shares

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
3,291,276,000 (31 December 2014: 3,304,016,000) ordinary shares of HK\$0.01 each	<u>32,913</u>	<u>33,040</u>
	RMB'000	RMB'000
Equivalent to	<u>28,326</u>	<u>28,425</u>

A summary of movements in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK\$'000	Share premium HK\$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Equivalent total RMB'000
At 1 January 2015	3,304,016,000	33,041	652,227	28,425	635,828	664,253
Cancellation of share repurchased	(14,100,000)	(141)	(30,057)	(111)	(23,737)	(23,848)
Share options exercised	<u>1,360,000</u>	<u>13</u>	<u>2,931</u>	<u>12</u>	<u>2,313</u>	<u>2,325</u>
At 30 June 2015	<u>3,291,276,000</u>	<u>32,913</u>	<u>625,101</u>	<u>28,326</u>	<u>614,404</u>	<u>642,730</u>

13. BUSINESS COMBINATIONS

On 26 January 2015, Wuzhou Shenguan entered into an equity transfer agreement with Mr. Sha Shuming (“Mr. Sha”), the spouse of Ms. Zhou Yaxian, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in 廣西梧州三箭製藥有限公司 (Guangxi Wuzhou Sanjian Pharmaceutical Company Limited (“Sanjian Pharmaceutical”)) at a cash consideration of RMB4,810,000. Upon completion of the acquisition, Sanjian Pharmaceutical will become a wholly-owned subsidiary of Wuzhou Shenguan. The acquisition was completed on 16 March 2015.

The provisional fair value of the identifiable assets and liabilities of Sanjian Pharmaceutical as at the date of acquisition was as follows:

	Provisional fair value recognised on acquisition RMB'000
Property, plant and equipment	8,679
Intangible assets	8,246
Deferred tax assets	1,448
Long term prepayment*	5,300
Cash and cash equivalents	693
Trade and bills receivables	6,079
Prepayments, deposits and other receivables	3,830
Inventories	7,265
Trade payables	(5,765)
Bank borrowings	(19,000)
Other payables and accruals	(7,865)
Tax payable	(201)
Deferred tax liabilities	(1,313)
	7,396
Provisional gain on bargain purchase	(2,586)
Satisfied by cash	4,810

An analysis of net cash outflow of cash and cash equivalents in respect of the acquisition of Sanjian Pharmaceutical is as follows:

	RMB'000
Cash consideration	4,810
Cash and bank balances acquired	<u>(693)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of Sanjian Pharmaceutical	<u>4,117</u>

* The long-term prepayment represents an amount of RMB5,300,000 prepaid by Sanjian Pharmaceutical to 神冠房地產開發有限公司 (“Shenguan Property Development”), a company controlled by Ms. Zhou Yaxian, a director of the Company, in relation to the acquisition of certain properties by Sanjian Pharmaceutical.

The acquisition of Sanjian Pharmaceutical during the period is determined on a provisional basis as the nature and fair value of the identifiable assets acquired can be determined on a provisional value only as at the end of the reporting period. The Company is in the process of finalising the valuation with the independent valuer on Sanjian Pharmaceutical’s fair value. It may be adjusted upon the completion of the initial accounting.

Since the acquisition, Sanjian Pharmaceutical has contributed RMB7,935,000 to the Group’s revenue and incurred a loss of RMB498,000 to the Group’s consolidated profit respectively for the six months ended 30 June 2015.

Had the combination taken place at the beginning of the current period, the revenue and the profit of the Group for the six months ended 30 June 2015 would have been RMB437,587,000 and RMB153,685,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the Period, China was facing persistent downward pressure on its economy, and its economic growth decelerated as expected. During the Period, China's gross domestic product grew by 7.0% to RMB29,686.80 billion, or 0.4 percentage points slower than the growth rate in the corresponding period in 2014.

During the Period, as China's markets for meat were sluggish amid the economic growth slowdown, the output of fresh pork decreased by 4.9% compared to the corresponding period in 2014, constraining the growth of meat products sales and the output of low-temperature products of domestic meat products enterprises suffered from different levels of decline. Furthermore, the dramatic depreciation of currencies in Europe and Japan against Renminbi favored the import of foreign made sausage casings into the Chinese market. Meanwhile, local small-scale collagen sausage casing manufacturers were trying to grab market shares through lower price, which led to the decline in both the overall product price in the industry and the average price of the Group's products. Other factors which led to the decline of the average price included the fact that the Group endeavored to sell those old production method products and older inventories as well as commenced some promotional activities during the Period. That said, the Group responded proactively by reinforcing its market share with a series of sales strategies. On the other hand, the Group tried to maintain the gross margin at a relatively stable level by exercising stringent control on the production cost, enhancing internal control, and improving both production and operational efficiency. However, these measures were not sufficient to offset the adverse effect brought about by the difficult business environment.

In view of the forecast of the development of sausage casing market, the Group endeavored to analyze and research on the broad application prospect of collagen and decided that in the coming five to ten years, the Group would speed up the application of core collagen technologies and follow the strategy which focus on the health industry as a priority. Developing new businesses through internal developments and external mergers and acquisitions, the Group attained satisfactory progress in applying collagen to other products during the Period. However, such initiative was still in its early stage, and thus had not yet contributed significantly to the business in the short term.

During the Period, revenue of the Group was approximately RMB435.7 million, decreased by 35.1% year on year. Profit attributable to shareholders dropped by 44.8% to approximately RMB153.7 million, and earnings per share were RMB 4.67 cents. The overall operation and the overall financial position of the Group remained sound.

Product Mix

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which are used for the production of western style sausages. Product innovation and diversification by sausage manufacturers continuously led to demand for sausage casings of different sizes and suitable for different fillings. The Group also made great efforts in enhancing internal management, streamlining production processes and improving efficiency. In order to keep pace with the new trend of the domestic meat product industry, the Group launch new products that can be applied to more types of sausages fillings to cater for the market. Currently the new products manufactured with the new production method have been widely used by customers and their quality is becoming more stable.

Apart from the progress in collagen sausage casing business, the Group has completed or was undergoing a number of equity acquisitions of several enterprises during the Period, with an objective of optimizing the application of our collagen technologies and thus creating complementary edges with the newly acquired enterprises. The Group planned to expand the market coverage of its products to the health industry, in order to achieve business diversification. During the second half of 2015, the Group will speed up the launch of new products utilizing core collagen technologies.

Supply of Raw Materials

Cattle's inner skin is a major raw material for collagen sausage casing production. The supply of cattle's inner skin remained stable in the past few years. It is expected that the supply will remain stable in the coming years as the Group has established good relationships with the suppliers over the years. During the Period, in response to the market conditions, the Group utilized its bargaining power of bulk purchases to reduce the procurement price of a number of raw materials, thus effectively controlled the production cost, and increasing the competitiveness of the Group's products in the future.

Technological Research & Development

As the largest collagen enterprise in China equipped with technologies deriving from collagen, the Group is committed to stepping up the development of core collagen technologies, aiming at establishing a base for production of safe, reliable and standardized collagen material required by health industry. The move will also upgrade and transform the collagen industry and promote proactively the application of collagen in health industry.

In respect of expertise, Dr. Bin-Bing Zhou, a medical expert, joined the Group as the technical consultant in March 2015. Dr. Zhou was recruited as an expert under the Thousand Talents Program (the eighth batch) of the Organization Department of the Communist Part of China's Central Committee and that at the Shanghai municipal level (the second batch). He is currently the Head of the Institute of Translational Research in Pediatrics of the School of Medicine of Shanghai Jiao Tong University, Chief Scientist of the Translational Research Collaborative Innovation Center of School of Medicine of the same university, and an adjunct professor of the Department of Pharmacology at Rutgers Robert Wood Johnson Medical School. Prior to returning to China, Dr. Zhou was a Senior Director of Oncology Research Unit-East at Pfizer, mainly responsible for the research of anticancer medicine and mechanism of cancers. Leveraging his extensive research on the mechanism of tumor's drug resistance and new drugs to overcome the resistance, Dr. Zhou has achieved fruitful results in scientific theories and technological developments. He will direct the Group's technical work with his expertise and related working experience to substantially improve its capability of developing the applications of collagen in pharmaceutical and medical products.

In respect of the sausage casing business, as at 30 June 2015, the Group had 35 valid patents granted by the State Intellectual Property Office in the PRC and 17 patents applications have been accepted by the relevant authorities pending approval.

Quality Control

The advantage of quality control becomes more important in view of the increasing public concern on food safety. The Group strictly controls each production step to ensure that its products are of high quality and have complied with all safety requirements before being delivered to customers.

Guangxi Wuzhou Zhongguan Testing Technology Services Co., Ltd (廣西梧州市中冠檢測技術服務有限公司) ("Wuzhou Zhongguan"), a subsidiary of the Group, is able to examine over 200 indicators, including heavy metal and microelement, pesticide residues, microorganism and protein, and Wuzhou Zhongguan had obtained Qualification Accreditation of Food Inspection Agencies and Metrological Certification in 2014 and obtained the qualification for the status of an independent food inspection institution in April this year. Upon obtaining the qualification, Wuzhou Zhongguan can now independently undertake third party inspection assignments, conduct direct inspection of various food and relevant products, and issue officially-recognized inspection reports. Such qualification is going to lay the solid foundations for the Group's development into a base of collagen material and promoting the healthy development of high-end foods, health care products and medications of the health industry.

The Group's production of collagen sausage casings has passed the assessments of ISO9001:2008 Quality Management System and the certification of ISO22000:2005 Food Safety Management System, and has obtained the QS Food Production Permit. It has also registered with Food and Drug Administration ("FDA") in the United States for products to be exported to the United States. In addition, the production of all of the Group's sausage casing products have strictly complied with China's (the People's Republic of China) national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are recognition of the Group as a trustworthy product supplier to its customers.

Customer Relationship

The Group is committed to developing long-term cooperative relationships with its business partners. After years of cooperation with its business partners based on mutual trust, the Group has established a sophisticated customer network. 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 China, 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 casings to a number of renowned food suppliers in China. The number of domestic customers remained stable.

Financial Analysis

Revenue

Revenue decreased by 35.1% to approximately RMB435.7 million in the first half of 2015 from approximately RMB670.9 million in the first half of 2014. During the Period, as China's markets for meat were sluggish amid the economic growth slowdown, the output of fresh pork decreased by 4.9% compared to the corresponding period in 2014, constraining the growth of meat products sales, and the output of low-temperature products of domestic meat products enterprises suffered from different levels of decline. Furthermore, the dramatic depreciation of currencies in Europe and Japan against Renminbi favored the import of foreign made sausage casings into the Chinese market. Meanwhile, local small-scale collagen sausage casings manufacturers were trying to grab market shares with lower price, which led to the decline in both the overall product price of the industry and the average price of the Group's products. Other factors which led to the decline of the average price included the fact that the Group endeavored to sell those old production method products and older inventories as well as commenced some promotional activities during the Period.

Cost of sales

Cost of sales decreased by 28.5% to approximately RMB216.3 million for the first half of 2015 from approximately RMB302.6 million for the same period of 2014, mainly attributable to the decrease in sales volume. Due to the decrease in sales volume and the measures adopted by the Group, the costs control meet expectation starting from May 2015. Costs of raw materials declined by 33.3% to approximately RMB90.8 million, utilities charges decreased by 28.8% to approximately RMB50.8 million and the direct labor cost decreased by 21.0% to approximately RMB38.8 million.

Gross profit

Gross profit decreased by 40.4% to approximately RMB219.4 million for the first half of 2015 from approximately RMB368.3 million for the same period of 2014. The gross profit margin decreased from 54.9% to 50.3% for the Period. The decrease in gross profit margin was mainly caused by the decreases in the prices of the products of the industry as a whole which reduced the average selling price of the group's products.

Other income and gains

Other income and gains increased by 49.4% to approximately RMB24.6 million for the first half of 2015 from approximately RMB16.5 million for the same period of 2014. The change of other income and gains was mainly caused by the increase of bank interest by approximately RMB5.9 million.

Selling and distribution costs

Selling and distribution expenses decreased by 35.6% to approximately RMB5.7 million for the first half of 2015 from approximately RMB8.9 million for the same period of 2014. Selling and distribution expense ratio remained stable at 1.3% against revenue for the first half of 2014 and the first half of 2015.

Administrative expenses

Administrative expenses increased by 0.8% to approximately RMB42.2 million for the first half of 2015 from approximately RMB41.8 million for the first half of 2014. During the Period, provision of RMB5.2 million was made for trade receivables, representing an increase of RMB3.9 million compared with the corresponding period of last year. However, the increase was offset by a decrease of approximately RMB4 million in donations made to charity parties by the Group during the Period.

Finance costs

Finance costs increased by 65.6% to approximately RMB7.9 million for the first half of 2015 from approximately RMB4.8 million for the first half of 2014. The increase in finance costs was mainly caused by two bank borrowings in the aggregate amount of HK\$630.9 million (equivalent to approximately RMB497.5 million), which were secured by three deposits. Please refer to the sub-section headed "Cash and bank borrowings" under the section "Liquidity and Capital Resources" below for details. The above arrangements are collectively referred to as "Mainland onshore guarantee for offshore loan". As a result of

the increase in borrowings, the interest expenses increased by approximately RMB4.9 million. On the other hand, however, the government subsidy for interest increased by approximately RMB1.8 million, which partially offset the increase in interest expenses.

Income tax expenses

Income tax expenses were approximately RMB34.5 million for the first half of 2015, as compared to approximately RMB51.0 million for the same period of 2014. The Company's major operating subsidiaries, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") and Wuzhou Shensheng Collagen Products Co., Ltd. (梧州市神生膠原製品有限公司) ("Shensheng Collagen") enjoyed a preferential tax treatment because of their location in Western China which had been earmarked by the Central Government of the PRC for its Western Region Development Campaign as well as their engagement in industries encouraged by the government policies. The applicable tax rate for Wuzhou Shenguan and Shensheng Collagen was 15%.

The effective corporate income tax rates applicable to the Group was 15.5% of profit before tax in the first half of 2014 and 18.4% in the first half of 2015. The difference between the effective tax rate and the applicable tax rate was mainly due to the withholding tax levied on dividends declared and paid by Wuzhou Shenguan to its holding companies incorporated in Hong Kong.

Profit attributable to owners of the Company

In view of the aforesaid reasons, profit attributable to owners of the Company decreased by 44.8% to approximately RMB153.7 million for the first half of 2015 from approximately RMB278.3 million for the first half of 2014.

Liquidity and Capital Resources

Cash and bank borrowings

The Group generally finances its operations and capital expenditure with internally generated cash flows as well as bank borrowings provided by its principal banks.

As at 30 June 2015, the cash and cash equivalents together with the pledged deposit amounted to approximately RMB769.0 million, representing a decrease of approximately RMB176.6 million from the end of 2014. Of these balances, 94.6% was denominated in Renminbi and the remaining 5.4% was denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2015, the total bank borrowings of the Group amounted to approximately RMB698.5 million (as at 31 December 2014: approximately RMB783.1 million), and all bank borrowings were wholly repayable within one year, of which the total bank borrowings denominated in Renminbi were approximately RMB201.0 million, while the total bank borrowings denominated in Hong Kong dollars were HK\$630.9 million

(equivalent to approximately RMB497.5 million). The two bank borrowings denominated in Hong Kong dollars were subject to an interest rate of HIBOR plus 1% and 1.3% per annum, respectively, and were secured with three fixed deposits and demand deposits (totalling RMB559.2 million) which were denominated in Renminbi. The two bank borrowings above and the corresponding security of the pledged fixed deposit, which were collectively referred to as “Mainland onshore guarantee for offshore loan” in the banking industry, can still bring returns to the Group due to interest spread even after the payment of handling fee to the banks.

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB70.5 million as at 30 June 2015. The debt-to-equity ratio was 26.1% as at 30 June 2015 (as at 31 December 2014: 29.7%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Period, approximately RMB73.6 million was generated from operating activities, while the net amount spent on investing activities and financing activities was approximately RMB53.0 million and approximately RMB210.3 million, respectively. Net cash outflow from investing activities was mainly related to the purchase of property, plant and equipment, the purchase of the entire equity interest in Guangxi Wuzhou Sanjian Pharmaceutical co., Ltd (廣西梧州三箭製藥有限公司) (“Sanjian Pharmaceutical”) and a cash outflow related to the addition of a pledged deposit, which is not classified as cash and cash equivalents in the statements of cash flow under the accounting standards, thus being defined as a cash outflow in the statement of cash flows. Net cash outflow from financing activities was mainly related to the combined effects of repayment of bank borrowings and new bank borrowings, and also the payment of final dividend for 2014 and share repurchase.

Exposure to exchange risks

The Group mainly operates in mainland China with most of its 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 the 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 on capital expenditure of the Group during the Period amounted to approximately RMB45.3 million, which was mainly used for the purchase of property, plant and equipment as well as the equity interest of subsidiaries, and capital commitments as at 30 June 2015 amounted to approximately RMB117.8 million. Both the capital expenditure and capital commitments were mainly related to the improvement and enhancement of production facilities.

The Company has budgeted around RMB230.0 million for capital expenditure in 2015 which will be used for the establishment of a research and development centre, investment in production facilities, research and development of collagen-related products and the acquisition of the equity interest in companies that are necessary for the Group's development.

Pledge of assets

As at 30 June 2015, bank deposits of RMB559.2 million was pledged to secure bank borrowings totaling HK\$630.9 million (equivalent to approximately RMB497.5 million).

Contingent liabilities

As at 30 June 2015 and up to the date of this announcement, the Group was not aware of any material contingent liabilities.

Acquisitions, disposals and significant investment

On 26 January 2015, Wuzhou Shenguan entered into an equity transfer agreement with Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian, an executive Director and one of the controlling shareholders of the Company, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in Sanjian Pharmaceutical at a consideration of RMB4.81 million. Upon completion of the acquisition, Sanjian Pharmaceutical will become a wholly-owned subsidiary of Wuzhou Shenguan. For details of the acquisition of Sanjian Pharmaceutical, please refer to the announcement of the Company dated 26 January 2015.

Human resources

As at 30 June 2015, the Group had approximately 3,300 contract employees. During the Period, the remuneration and employees' benefit expenses charged to profit and loss were approximately RMB57.1 million (first half of 2014: approximately RMB63.7 million). In order to attract and retain high quality talents to ensure smooth operation and support the Group's continuing expansion, the Group offers competitive remuneration packages after considering the market conditions and individual qualifications and experience.

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

Events Subsequent to the Period Under Review

Acquisition of 100% Equity Interest in Nanning Nuyou

On 21 May 2015, a wholly owned subsidiary of the Group agreed to acquired the entire equity interests in Nanning Nuyou Health Care Products Company Limited ("Nanning Nuyou") at a consideration of RMB1,500,000. Nanning Nuyou was established in 1988, the business scope of which included the production, sales, technological research and development, technology consultant and technological services of skin care products, cosmetics and health care products as well as the investment in beauty industry. It owns 7 registered trademarks including "女友" and "女友青春態". The acquisition was completed on 9 July 2015.

Acquisition of 51% Equity Interests in Guangdong Victory

On 20 July 2015, Shenguan Investment Development Co., Ltd. ("Shenguan Investment Development"), a subsidiary of the Group, entered into an equity transfer agreement with Enneford Industrial Limited ("Enneford Industrial"), pursuant to which Shenguan Investment Development has agreed to acquire and Enneford Industrial has agreed to sell 51% equity interest in Guangdong Victory Biotech Co., Ltd. (廣東勝馳生物科技有限公司) ("Guangdong Victory") at a total consideration of RMB146.88 million.

To facilitate the future development of Guangdong Victory, within one month after the completion by both Shenguan Investment Development and the Enneford Industrial of the registration with the relevant bureau for industry and commerce in the PRC for the transfer of the equity interest in Guangdong Victory, both Wuzhou Shenguan Investment and the Enneford Industrial shall make a capital increase to Guangdong Victory in cash in the aggregate amount of not less than RMB20 million (but not more than RMB30 million) in proportion to their respective equity interest in Guangdong Victory.

Guangdong Victory is a company established in the PRC with limited liability and is principally engaged in the extraction of bioactive natural collagen (生物活性天然膠原蛋白) from deliming and dealkaling skin (脫灰鹼皮) through bioengineering technology and the production of collagen-related functional products. The company obtained the ISO 13485:2003, ISO 22442-1:2007, ISO 22442-2:2007 and ISO 22442-3:2007 certifications in 2013, and production permits for medical sanitary materials and dressings (Class II & Class III) issued by Guangdong Food and Drug Administration.

Guangdong Victory is currently qualified to produce and sales of medical grade collagen materials. Its collagen woundcare material is undergoing clinical trial; and its inner body hemostatic cotton is under application for clinical trial. For details of the acquisition of Guangdong Victory, please refer to the announcement of the Company dated 20 July 2015.

Acquisition of 15% equity interest in Ferguson Wuhan

On 6 August 2015, Wuzhou Shenguan entered into an acquisition agreement with Nanning Zhe Yuan Tang Business Limited (南寧蔗源糖業有限公司) (“Nanning Zhe Yuan”), for the acquisition of 15% equity interest in Ferguson (Wuhan) Biotechnologies Ltd. (福格森(武漢)生物科技股份有限公司) (“Ferguson Wuhan”) at a total consideration of RMB31.1 million payable by Wuzhou Shenguan to Nanning Zhe Yuan in cash. After the completion of the acquisition, Wuzhou Shenguan proposed to make an additional capital contribution of RMB6 million to Ferguson Wuhan.

Ferguson Wuhan is a company established in the PRC with limited liability at the Wuhan Economic and Technological Zone (武漢經濟技術開發區) in the PRC in 2002, specialising in products in professional health care, nutrition research and development, production and sales services for pregnancy, early childhood and population with special needs. Ferguson Wuhan is principally engaged in the sales of its products under its own “福格森” and “FERGUSON” brand name and owns eight invention patents. For details of the acquisition of Ferguson Wuhan, please refer to the announcement of the Company dated 6 August 2015.

Prospects and Strategies

The global economic recovery was slower than expected and was overshadowed by increased uncertainties due to the rising geo-political conflicts and substantial decline in the prices of commodities. China is at the critical stage of “restructuring and changing the mode of development”, and the impact continued to be released in the throes of the restructuring and China is going to face persistent downward pressure on its economy. However, the Chinese government has adopted policies to stimulate consumption, making domestic demand the driver of the national economy. The consumption structure is upgrading and China’s economy still has the potentials of maintaining the moderate and high speed of growth. As the effects of the policies and measures adopted by the government in the first half of 2015 begin to materialize in the second half of 2015 and the investment projects enter implementation stage at that time, the benefit of the above policies and measures will be continuously realized in the remaining six months of 2015. In addition, real estate market has shown obvious trend of recovery. As a result, it is expected that the economy condition in the second half of 2015 will be better than that in the first six months.

China's implementation of strict supervision and management on food safety and the continuous perfection of various policies and measures will be conducive to the increase in food consumption. Lately, China changed the supervisor of pig slaughtering house from Ministry of Commerce to Ministry of Agriculture. Ministry of Agriculture and China Food and Drug Administration promulgated “關於進一步加強畜禽屠宰檢驗檢疫和畜禽產品進入市場或者生產加工企業後監管工作的意見”, which required the pigs to be rested before entering the slaughter house and to be tested before and after the slaughtering. Pigs shall not be slaughtered before testing and registration by official veterinarians in the slaughter house. This thoroughly prevents those sick and hazardous animal and poultry products from entering the market, which in turn increases the confidence in the consumption of meat products and thus benefits the consumption of the meat products as well as the sales of the major products of the Group.

In addition, China's stringent control in environmental protection brought additional cost to competitors in the industry. The depreciation in Renminbi favors the Group's products to compete in overseas sales, as well as the competition of the Group's products with foreign products in the domestic market. These factors will enhance the competitiveness of the Group.

The Group will grasp opportunities to increase exports sales. In addition, it will take full advantage of the changes in the market and adopts flexible sales measures in order to maintain its leading position amid the competition with foreign competitors and domestic small-scale peers. The Group will arrange the production in accordance with the seasons and enhance the automation of production to reduce the energy consumption. Furthermore, it will regulate the utilization rate and increase the period for the maintenance of the equipment to improve the product quality on one hand, and reduce the inventories to free up working capital on the other hand. Collagen sausage casing business will continue to provide steady cash flow for the Group, serving as one of the major sources of fund for its expansion into other collagen products.

Health industry has gradually become a strategic and pillar industry in China. Quality food, health care products and medications, which are the key components of the health industry, have huge market potential. Leveraging on its core technology in collagen, the Group is dedicated to building a production base for safe, reliable and standardized collagen material required by health industry. It is also actively pursuing the “Industry 4.0” campaign for collagen production to upgrade and transform the collagen industry, and proactively promoting the application of collagen to foods, health care products and medications.

The Group has set the “diversification of the collagen business” as the goal of its development. During the Period, the Group completed the acquisition of the equity interest in Sanjian Pharmaceutical and Nanning Nuyou. In July and August 2015, the Group commenced the acquisition of 51% equity interest in Guangdong Victory and the acquisition of 15% equity interest in Ferguson Wuhan. These acquisitions were consistent with the Group’s conditions and its development strategy, which will benefit the stable development of the group in the long run. In the second half of 2015, the Group will fully utilize the research outcomes, production qualification and capabilities, and quality accreditation of the four companies mentioned above in addition to its most advanced collagen product examination technologies in China in order to lay a solid foundation for application of collagen products to pharmaceutical products, health care products, skin care products, medications etc, and realize the effects as soon as possible. The Group will speed up the sales of its products on e-commerce platforms with the aim of promoting the application of collagen technologies to the health industry.

The Group firmly believes that its core technology of collagen and product diversification strategy, its endeavors in technology innovation and product innovation as well as sound corporate management will promote its sustainable development and generate good returns to its shareholders.

OTHER INFORMATION

Payment of interim dividends

In view of the capital expenditure (including acquisitions and investments in companies) to be incurred by the Group in the foreseeable future, no interim dividend was proposed by the Board in respect of the Period (1H2014: HK7.5 cents per share including the special dividend).

Purchase, redemption or sale of listed securities of the Company

During the Period, the Company purchased certain of its shares on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those repurchases during the Period are as follows:

Month	Number of shares repurchased	Number of shares cancelled	Price per share		Total price paid HK\$
			Highest HK\$	Lowest HK\$	
March 2015	<u>2,000,000</u>	<u>2,000,000</u>	<u>2.20</u>	<u>2.15</u>	<u>4,383,000</u>

2,000,000 of the shares of the Company repurchased during the Period were subsequently cancelled and HK\$4,383,000 was paid for the repurchases of shares.

The purchase of the Company's shares during the Period was effected by the directors, pursuant to the mandate granted by the shareholders at the annual general meeting of the Company held in 2014, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

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.

Ms. Zhou Yaxian, who acts as the chairman (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.

The Chairman takes the lead to ensure that the Board acts in the best interest of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole. The Chairman meets at least annually with the non-executive Directors without the executive Directors being present.

Audit committee

The audit committee of the Company has reviewed the condensed consolidated unaudited 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, 21 August 2015

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.