SHENGUAN HOLDINGS (GROUP) LIMITED
神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Financial highlights		
Revenue	**1,054.6**	1,403.0
Gross profit	**465.9**	769.8
Profit before tax	**337.1**	676.1
Income tax expense	**(51.6)**	(128.7)
Profit attributable to owners of the parent	**291.4**	547.5
Basic earnings per share, (RMB cents per share)	**8.87**	16.5
Diluted earnings per share, (RMB cents per share)	**8.87**	16.5
Financial ratios		
Gross profit margin	**44.2%**	54.9%
Net profit margin	**27.6%**	39.0%

The board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, "Shenguan" or the "Group") for the year ended 31 December 2015 (the "Year" or the "Period"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The 2015 consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 18 March 2016. The Board is pleased to propose a final dividend of HK3.2 cents per share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	Notes	**2015**	2014
		RMB'000	*RMB'000*
REVENUE	*4*	**1,054,565**	1,403,008
Cost of sales		**(588,713)**	(633,214)
Gross profit		**465,852**	769,794
Other income and gains	*4*	**41,016**	38,359
Selling and distribution expenses		**(11,660)**	(17,743)
Administrative expenses		**(140,372)**	(99,663)
Finance costs, net	*5*	**(17,700)**	(14,610)
PROFIT BEFORE TAX	*6*	**337,136**	676,137
Income tax expense	*7*	**(51,558)**	(128,661)
PROFIT FOR THE YEAR		**285,578**	547,476
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(12,493)**	1,078
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(12,493)**	1,078
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**273,085**	548,554
Profit attributable to:			
Owners of the parent		**291,390**	547,476
Non-controlling interests		**(5,812)**	–
		285,578	547,476

	Note	**2015** *RMB'000*	2014 *RMB'000*
Total comprehensive income attributable to:			
Owners of the parent		**278,897**	548,554
Non-controlling interests		**(5,812)**	–
		273,085	548,554
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE PARENT	*9*		
Basic (RMB cents per share)		**8.87**	16.5
Diluted (RMB cents per share)		**8.87**	16.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	**2015** **RMB'000**	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,310,261**	1,338,270
Prepaid land lease payments		**122,619**	122,292
Goodwill		**47,486**	–
Other intangible assets		**242,924**	–
Available-for-sale investment		**37,100**	–
Contract in progress		**–**	124,249
Deferred tax assets		**56,326**	52,126
Long term prepayments		**15,642**	6,866
Total non-current assets		**1,832,358**	1,643,803
CURRENT ASSETS			
Financial asset at fair value through profit or loss		**353**	–
Inventories		**921,958**	847,065
Trade and bills receivables	*10*	**181,904**	199,639
Prepayments, deposits and other receivables		**191,920**	62,808
Pledged deposits		**354,727**	546,044
Cash and cash equivalents		**210,784**	399,585
Total current assets		**1,861,646**	2,055,141
CURRENT LIABILITIES			
Trade and bills payables	*11*	**42,726**	98,178
Other payables and accruals		**114,067**	105,467
Interest-bearing bank borrowings		**544,545**	783,144
Tax payable		**9,985**	11,632
Total current liabilities		**711,323**	998,421
NET CURRENT ASSETS		**1,150,323**	1,056,720
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,982,681**	2,700,523

	Note	2015 RMB'000	2014 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**32,663**	35,347
Deferred tax liabilities		**79,523**	29,571
Total non-current liabilities		**112,186**	64,918
Net assets		**2,870,495**	2,635,605
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*12*	**28,135**	28,425
Reserves		**2,752,614**	2,607,180
		2,780,749	2,635,605
Non-controlling interests		**89,746**	–
Total equity		**2,870,495**	2,635,605

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a financial asset at fair value through profit or loss which has been measured in fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follow:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economics characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 an the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively.

The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an assets or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") issued by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of the manufacture and sale of edible collagen sausage casing products. The Group also involves in the manufacture and sale of pharmaceutical products, skin care and health care products and bioactive collagen products.

Since over 90% of the Group's revenue is generated by its edible collagen sausage casing products, no operating segments have been aggregated to form the above reportable operating segment.

Information about geographical areas

Geographical information is not presented since over 90% of the Group's revenue is derived from external customers based in the PRC and over 90% of the Group's non-current assets are located in the PRC. Accordingly, in the opinion of directors of the Company, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about a major customer

For the year ended 31 December 2015, revenue generated from a customer of the Group, excluding value added tax, amounting to RMB343,616,000 (2014: RMB478,165,000) has individually accounted for over 10% of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of service rendered during the year.

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

	2015	2014
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,054,366**	1,403,008
Service income	**199**	–
	1,054,565	1,403,008
Other income		
Bank interest income	**22,326**	16,283
Interest income from held-to-maturity investments	**–**	2,387
Sale of dried meat products	**972**	403
Government grants	**5,912**	5,888
Others	**1,773**	1,392
	30,983	26,353
Gains		
Gain on disposal of financial asset at fair value through profit or loss	**10,033**	12,006
Total other income and gains	**41,016**	38,359

5. FINANCE COSTS, NET

	2015	2014
	RMB'000	*RMB'000*
Interest on bank loans	**20,299**	17,702
Arrangement fee	**2,684**	4,733
Less: Government grants	**(5,283)**	(7,825)
	17,700	14,610

6. PROFIT BEFORE TAX

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

	2015	2014
	RMB'000	*RMB'000*
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**104,603**	104,773
Equity-settled share option expense	**–**	247
Retirement benefit contributions	**40,960**	32,281
	145,563	137,301
Auditors' remuneration	**2,187**	1,937
Cost of inventories sold	**588,713**	633,214
Depreciation	**96,257**	89,982
Amortisation of prepaid land lease payments*	**2,984**	2,541
Impairment of goodwill*	**1,804**	–
Amortisation of other intangible assets*	**15,604**	–
Minimum lease payments under operating leases	**1,168**	1,009
Loss on disposal of items of property, plant and equipment, net	**23,797**	2,442
Impairment of trade and bills receivables*	**4,847**	9,688
Foreign exchange differences, net	**12,049**	205

* *The amortization of prepaid land lease payments and intangible assets, impairment of goodwill and impairment of trade and bills receivables are included in "Administration expenses" in the consolidated statement of profit or loss and other comprehensive income.*

7. INCOME TAX

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

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

Wuzhou Shenguan and Wuzhou Shensheng, being the Company's wholly-owned subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are subject to the region's preferential corporate income tax ("CIT") rate of 15% as set out in the Circular on Issues Concerning Preferential Tax Policies for the Development of Western Regions (Cai Shui 2001 No. 202).

	2015	2014
	RMB'000	*RMB'000*
Current – PRC	**69,488**	121,281
Current – Hong Kong		
Charge for the year	**1,612**	806
Overprovision in prior years	**(16)**	–
Deferred tax	**(19,526)**	6,574
Total tax charge for the year	**51,558**	128,661

8. DIVIDENDS

	2015	2014
	RMB'000	*RMB'000*
Interim dividend – Nil (2014: HK4.3 cents) per ordinary share	**–**	112,892
Interim special dividend – Nil (2014: HK3.2 cents) per ordinary share	**–**	84,012
Final dividend proposed subsequent to the reporting period – HK3.2 cents (2014: HK4.1 cents) per ordinary share	**87,151**	107,369
	87,151	304,273

The final dividend for the year ended 31 December 2015 proposed subsequent to the reporting period has not been recognised as a liability at the end of the reporting period and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB291,390,000 (2014: RMB547,476,000) and the weighted average number of 3,283,494,000 ordinary shares (2014: 3,318,848,000) in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 December 2015 is based on the profit for the year attributable to ordinary owners of the parent of RMB291,390,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 351,000 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2014 in respect of a dilution as the impact of the share options outstanding had no dilutive effect on the basic earnings per share amount presented.

10. TRADE AND BILLS RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables	**185,575**	199,601
Bills receivable	**17,309**	13,156
Due from a related company	**2,356**	5,371
Impairment	**(23,336)**	(18,489)
	181,904	199,639

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 certain customers.

An ageing 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:

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**170,640**	175,759
3 to 4 months	**3,744**	3,824
Over 4 months	**7,520**	20,056
	181,904	199,639

11. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015	2014
	RMB'000	*RMB'000*
Within 1 month	**32,411**	40,680
1 to 2 months	**2,090**	47,412
2 to 3 months	**1,016**	6,317
Over 3 months	**7,209**	3,769
	42,726	98,178

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

12. SHARE CAPITAL

	2015	2014
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,268,276,000 (2014: 3,304,016,000) ordinary shares of HK$0.01 each	**32,683**	33,040
Equivalent to RMB'000	**28,135**	28,425

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 2014	3,324,120,000	33,242	1,330,460	28,584	1,172,520	1,201,104
Cancellation of share repurchased	(20,104,000)	(201)	(47,926)	(159)	(37,967)	(38,126)
Final 2013 dividend	–	–	(232,688)	–	(183,717)	(183,717)
Final special 2013 dividend	–	–	(149,585)	–	(118,104)	(118,104)
Interim 2014 dividend	–	–	(142,206)	–	(112,892)	(112,892)
Interim special 2014 dividend	–	–	(105,828)	–	(84,012)	(84,012)
At 31 December 2014 and 1 January 2015	3,304,016,000	33,041	652,227	28,425	635,828	664,253
Cancellation of share repurchased	(37,100,000)	(371)	(54,364)	(301)	(43,732)	(44,033)
Share options exercised	1,360,000	13	4,017	11	3,210	3,221
Final 2014 dividend	–	–	(134,904)	–	(106,307)	(106,307)
At 31 December 2015	3,268,276,000	32,683	466,976	28,135	488,999	517,134

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2015, global economic growth was slower than expected while China was facing persistent downward pressure on its domestic economy. According to the statistics from the National Bureau of Statistics, during the Year, the country's gross domestic product ("GDP") grew at 6.9 per cent from 2014.

Affected by the macro-economic environment, meat consumption in China decreased in 2015. The output of fresh meat – pork, beef, mutton and poultry decreased by 1.0 per cent to 84.54 million tons in 2015 as compared with last year, in which pork production was 54.87 million tons, which represented a decline of 3.3 per cent. China's domestic meat products enterprises also suffered from different levels of decline in the output of low temperature products due to the weakness in meat consumption market.

Amidst the slow growth in the market, certain changes were also noticed in the competitive landscape of sausage casing industry. On the one hand, the currency exchanges of Europe and Japan have been trading at a relatively low level for most of the time in 2015, and the foreign sausage casing manufacturers grasped such opportunity to enlarge their Chinese market and compete with the local manufacturers. On the other hand, local small-scale collagen sausage casing manufacturers which are faced with competitive pressure has reduced their selling prices, which in turn intensified the market competition.

Business Review

In 2015, against the difficult operating environment characterized by the sluggish global economy, downward pressure on China's economy, weakening demand for low temperature meat products, intensified sausage casing market and significant change in customer demand, the Group took active measures to minimize the impacts. Meanwhile, it also adjusted its product mix during this low period thereby realizing product diversification.

Besides clearance of old-aged inventories and products produced by the old method through promotional activities during the Year, the Group adopted a series of counter measures and has made certain progress, particularly, in lowering costs, adjusting the production according to the seasons to reduce the energy consumption, raising the level of mechanization to save labor force and monitoring the credit of the customers closely. All these have enabled the Company to maintain a stable position in production, business operation and liquidity.

In addition, in view of the development expectation of sausage casing market, the Group conducted a due analysis and research and confirmed the broad application prospect of collagen thus decided that the Group would base on the application of collagen technologies in the coming five to ten years. With a focus on the health industry for development, it will also promote the project construction for the industrial chains steadily and proactively investigate the application of new collagen technologies in new areas. During the year under review, the Group successfully implemented various strategic acquisitions to lay a solid foundation for product diversification.

The Group also attained progress in product development and technology application. New products including collagen food products are currently under product testing, compiling product standard and marketing strategy planning. It is expected to be available for sales in 2016. In addition, the Group's new collagen skincare products developed by Nanning Nuyou and Guangxi Luxianna Biotechnology Development Company Limited ("Guangxi Luxianna") (廣西露仙娜生物科技發展有限公司) are currently under trial production and marketing strategy planning, and are also expected to be available for sales in 2016.

Although the Group has taken a positive attitude in promoting its development, the performance for the Year was still below expectation. Revenue for 2015 was approximately RMB1,054.6 million, decreased by 24.8% compared to last year. Profit attributable to owners of the Company decreased by approximately RMB256.1 million, representing a decrease of approximately 46.8% to approximately RMB291.4 million in 2015 from approximately RMB547.5 million in 2014. By excluding the effect of the increase in expenses on the net profit of the Group including loss on disposal of fixed assets, loss on foreign exchange and amortisation of technology which were included in administrative expenses, profit attributable to owners of the Company in 2015 decreased by approximately RMB218.5 million, representing a decrease of approximately 39.9% from 2014. Earnings per share was RMB8.87 cents. The Board proposed a final dividend of HK$3.2 cents per share.

Business Diversification

The Group has made significant progress in product chain development and business diversification in 2015 through a number of acquisitions of collagen application, and it is commencing the application of collagen technology in various areas including medications, beauty, food and health care products.

In respect of medications, the Group completed the acquisition of Guangxi Wuzhou Sanjian Pharmaceutical Co., Ltd (廣西梧州三箭製藥有限公司) ("Sanjian Pharmaceutical") in early 2015, from which the Group acquired the GMP qualification for manufacturing medical products. Then, the Group acquired 51% equity interest of Guangdong Victory, from which the Group acquired the technology of producing medical grade collagen materials in the second half of the Year. The collagen wound dressing produced by Guangdong Victory is undergoing clinical trial and its inner body hemostatic cotton is under application for clinical trial. Guangdong Victory obtained the certification of the European Union on quality of medical devices (ISO13485:2003) and certification of the European Union on control of medical devices utilising animal tissues (ISO22442-1:2007, ISO22442-2:2007 and ISO22442-3:2007) in 2013, and the production permits for medical sanitary materials and dressings (Class II & Class III) issued by Guangdong Food and Drug Administration. Moreover, Guangdong Victory also has the ability for mass producing medical-grade collagen raw materials which can be exported to the European Union.

Collagen is also applicable to the cosmetics industry; therefore the Group acquired the entire equity interests in Nanning Nuyou in July 2015. Upon completion of the acquisition, the Group gained the production, and sales permits for skincare products and health care products as well as seven registered trademarks including "女友" and "女友青春態".

In respect of food and health care products, the Group acquired 15% equity interests in Ferguson (Wuhan) Biotechnologies Ltd. (福格森（武漢）生物科技股份有限公司) ("Ferguson Wuhan"), a company which engaged in production of professional health care products. Ferguson Wuhan focuses on the research and development, production and sales of products for pregnant women, toddlers and persons with special needs.

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 sausages. Product innovation and diversification by sausage manufacturers continued to create demand for sausage casings of different sizes and fillings.

In order to keep pace with the new trend of the domestic meat product industry, the Group also launched new products that can be applied to more types of sausages fillings to cater for the market. Currently, the products using the new production method are widely used by customers and the quality is becoming more stable. At the same time, the Group also made great efforts in enhancing internal management, streamlining production processes and improving efficiency.

The Group completed acquisitions of equity interests in several companies during the Year. The Group also sought to optimize the application of its collagen technologies through the newly acquired companies and expanded the coverage of its products to the health industry with an aim to achieve business diversification. With the gradual implementation of such strategy, by the end of 2015, the Group has extended the application of its products to medical-grade collagen materials, skincare products and health care products.

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 over the past few years and such situation is expected to remain unchanged in the coming years. During the Year, in response to the market conditions, the Group used its bargaining power of bulk purchases to reduce the purchase price of raw materials, thus effectively controlled the production cost, increasing the competitiveness of the Group's products in the future.

Technological Research & Development

As the largest enterprise utilising collagen in China, the Group is committed to stepping up the development of core collagen technologies, with an aim of establishing a base for production of safe, reliable and standardized collagen material required by the health industry. The move will also upgrade and transform the collagen industry and promote proactively the application of collagen in the health industry. In terms of expertise, Dr. Bin-Bing Zhou, a medical expert, joined the Group as the technical consultant of the Company 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 Party 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 from

Medicine of Shanghai Jiao Tong University, Chief Scientist of the Translational Research Collaborative Innovation Center of the School of Medicine from the same university, and an adjunct professor of University of Medicine and Dentistry of New Jersey. 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.

In August 2015, through the acquisition of Guangdong Victory, Dr. Tsai Chen Chih, an industry expert in medical use of collagen joined the Group. Dr. Tsai Chen Chih obtained the doctoral degree in chemical engineering from National Central University of Taiwan and has been focusing on biochemical research for a long time, which has earned him several patented technology and thesis. He has good command of the research and development and in-depth technology about collagen in medications.

The involvement from these professionals as mentioned above will improve its capability of developing the applications of collagen in pharmaceutical and medical products.

In respect of the sausage casing business, as at 31 December 2015, the Group had 35 valid patents granted by the State Intellectual Property Office of China and 21 patents applications have been accepted by the relevant authorities pending approval.

Quality Control

The Group strictly controls each production step to ensure that its products are at the best quality and have complied with all safety requirements.

Wuzhou Zhongguan, a subsidiary of the Group, is able to examine over 200 indicators, including heavy metals and microelements, pesticide residues, microorganisms and proteins, 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 2015, and is able to conduct direct inspection of various food and relevant products and issue officially-recognized inspection reports. Such recognized qualification is going to lay a solid foundation for the Group's development into a base of collagen material and promoting the development of the Group into 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 relationships based on mutual trust with its business partners and, establishing a sophisticated customer network. The Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only with enterprises in China, but also those in various overseas markets, such as South America, Southeast Asia and the United States for cooperation. During the Year, the Group continued to supply high-quality sausage casings to a number of renowned food manufacturers in China. The number of domestic customers remained stable.

Financial Analysis

Revenue

Revenue decreased by approximately 24.8% to approximately RMB1,054.6 million in 2015 from approximately RMB1,403 million in 2014. The decrease in revenue was mainly due to the slow growth in China's food industry, together with different levels of decline in the output of low-temperature products of domestic meat products enterprises, resulting in a decrease in the overall sales volume of the Group. Moreover, the increase in the sales by foreign sausage casing suppliers to the Chinese market owing to the depreciation of European and Japanese currencies during the Year, and the sales at low prices by local small-scale collagen sausage casing manufacturers, 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 products produced using the old production method and older inventories as well as commenced some promotional activities during the Year.

Cost of sales

Cost of sales decreased by approximately 7.0% to approximately RMB588.7 million in 2015 from approximately RMB633.2 million in 2014, which mainly reflected the decrease in sales volume and the result of the cost-controlling measures adopted by the Group. Such cost-controlling measures have met expectation starting from May 2015. Costs of raw materials declined by approximately 12.2% to approximately RMB233.4 million, utilities charges decreased by approximately 11.7% to approximately RMB138.4 million and the direct labor cost slightly increased by approximately 3.1% to approximately RMB112.1 million.

Gross profit

Gross profit decreased by approximately 39.5% to approximately RMB465.9 million in 2015 from approximately RMB769.8 million in 2014. The gross profit margin decreased from 54.9% to 44.2% in 2015. The decrease in gross profit margin was mainly caused by the decreases in the market price of the products as a whole which reduced the average selling price of the Group's products.

Other income and gains

Other income and gains increased by approximately 6.9% to approximately RMB41.0 million in 2015 from approximately RMB38.4 million in 2014. The change of other income and gains was mainly caused by the increase of bank interest income by approximately RMB6.0 million.

Selling and distribution costs

Selling and distribution expenses decreased by approximately 34.3% from approximately RMB17.7 million in 2014 to approximately RMB11.7 million in 2015. Selling and distribution expenses as a percentage of revenue decreased from 1.3% in 2014 to 1.1% in 2015.

Administrative expenses

Administrative expenses increased by approximately 40.8% from approximately RMB99.7 million in 2014 to approximately RMB140.4 million in 2015. During the Year, the provision for trade receivables was approximately RMB4.8 million, representing a decrease of RMB4.8 million when compared to that in last year.

However, to enhance the productivity, the Group discarded certain non-efficient production lines and equipments, and demolished and reconstructed an old office building during the Year, incurring a loss of approximately RMB23.8 million from the disposal of fixed assets, representing an increase of approximately RMB21.4 million as compared to last year. By excluding the corporate income tax, the effect of the relevant increase in loss on disposal of fixed assets on the net profit of the Group will be approximately RMB18.2 million. On the other hand, the depreciation of renminbi during the Year has led to an exchange loss of approximately RMB12.0 million, representing an increase of approximately RMB11.8 million as compared to last year. Lastly, the Group acquired technologies through the acquisition of Guangdong Victory in August 2015 and these intangible assets will be amortized over five years with the related amortization expense of approximately RMB14.9 million for the period between September and December in 2015. The related amortization has an impact of approximately RMB7.6 million on the Group's net profit after deducting the minority interest in Guangdong Victory.

Finance costs

Finance costs increased by approximately 21.1% to approximately RMB17.7 million in 2015 from approximately RMB14.6 million in 2014. Finance costs were mainly caused by two bank borrowings of HK$634.0 million in aggregate, which were secured by three deposits. Please refer to the sub-section headed "Cash and bank borrowings" under the section "Liquidity and Capital Resources" for the arrangements in details. The above arrangements were collectively referred to as "Mainland onshore guarantee for offshore loan". The increase of finance costs was mainly due to a decrease in government subsidies of about RMB2.5 million.

Income tax expenses

Income tax expenses were approximately RMB51.6 million in 2015, as compared to approximately RMB128.7 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 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 tax rates applied to the Group was 19.0% and 15.3% of profit before tax, respectively in 2014 and 2015. The difference between the effective tax rate and the applicable tax rate in 2014 was mainly due to the withholding tax levied on dividends declared by Wuzhou Shenguan to its holding company incorporated in Hong Kong.

Profit attributable to owners of the Company

Due to the aforesaid reasons and after adding back the loss attributable to the minority interests of approximately RMB5.8 million, profit attributable to owners of the Company decreased by approximately RMB256.1 million, representing a decrease of approximately 46.8% to approximately RMB291.4 million in 2015 from approximately RMB547.5 million in 2014. By excluding the effect of the increase in expenses on the net profit of the Group including loss on disposal of fixed assets, loss on foreign exchange and amortisation of technology which were included in administrative expenses, profit attributable to owners of the Company in 2015 decreased by approximately RMB218.5 million, representing a decrease of approximately 39.9% from 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 bankers.

As at 31 December 2015, the cash and cash equivalents together with the pledged deposits amounted to approximately RMB565.5 million, representing a decrease of approximately RMB380.1 million from the end of 2014. Among these balances, 94.0% was denominated in Renminbi and the remaining 6.0% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2015, the total bank borrowings of the Group amounted to approximately RMB544.5 million, representing a decrease of approximately RMB238.6 million from the end of 2014 (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 RMB222.0 million, while the bank borrowings denominated in Hong Kong dollars (the "HK$ Bank Borrowings") were HK$385.0 million (equivalent to approximately RMB322.5 million). The HK$ Bank Borrowings were subject to an interest rate of HIBOR plus 1% per annum and were secured by a fixed deposit of RMB330.0 million. The HK$ Bank Borrowings and the corresponding arrangement for security of deposit were collectively referred to as "Mainland onshore guarantee for offshore loan" in the banking industry.

The Group pays close attention to the continued depreciation of Renminbi. During the Year, another bank borrowing denominated in Hong Kong dollars (totaling HK$249.0 million) has been repaid on the due date. As at the date of this announcement, the Group had early repaid part of the HK$ Bank Borrowings in the amount of HK$336.4 million, and the outstanding unpaid HK$ Bank Borrowings amounted to HK$48.6 million.

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB21.0 million as at 31 December 2015. The debt-to-equity ratio was 19.0% as at 31 December 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 Year, approximately RMB327.4 million was generated from the operating activities, while the net amount spent on investing activities and financing activities was approximately RMB180.8 million and approximately RMB437.7 million, respectively. Net cash outflow from investing activities was mainly related to the purchase of property, plant and equipment, payment of consideration for merger and acquisition, and a cash outflow related to the decrease of pledged fixed deposits, which was not classified as cash and cash equivalent in the statements of cash flow under the accounting standards, thus it was defined as cash inflow 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, as well as 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 capital expenditure (excluding payment of consideration for acquisition) of the Group during the Year amounted to approximately RMB82.0 million, which was mainly used for the acquisition of property, plant and equipment. Capital commitments as at 31 December 2015 amounted to approximately RMB121.5 million, which were mainly related to the improvement and enhancement of production equipment.

The estimated capital expenditure of the Company for 2016 amounted to approximately RMB170.0 million, which will be used for the improvement of marketing and quality inspection facilities, the improvement and automatization of production facilities for sausage casing business, as well as expansion of production facilities and corresponding lands for the newly-acquired corporations.

Pledge of assets

As at 31 December 2015, bank deposits amounted to approximately RMB354.7 million, of which approximately RMB330.0 million was pledged as the security of the bank borrowings totalling approximately HK$385.0 million (equivalent to approximately RMB322.5 million).

Contingent liabilities

As at 31 December 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, who is 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 RMB4,810,000. Please refer to the announcement of the Company dated 26 January 2015 for details of the acquisition of Sanjian Pharmaceutical.

On 20 July 2015, Shenguan Investment Development Company Limited ("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 agreed to acquire and Enneford Industrial agreed to sell 51% equity interests in Guangdong Victory at a total consideration of RMB146,880,000. Please refer to the announcement of the Company dated 20 July 2015 for details of the acquisition of Guangdong Victory.

On 6 August 2015, Wuzhou Shenguan (as purchaser) entered into an acquisition agreement with Nanning Zhe Yuan Tang Business Limited ("Nanning Zhe Yuan") (as vendor) for the acquisition of 15% equity interest in Ferguson (Wuhan) at the aggregate consideration of RMB31,100,000. Please refer to the announcement of the Company dated 6 August 2015 for details of the acquisition of Ferguson (Wuhan).

Human resources

As at 31 December 2015, the Group had approximately 3,400 contract employees. During the Year, the total remuneration and employees' benefit expenses charged to profit and loss statement were approximately RMB145.6 million (2014: approximately RMB137.3 million). In order to attract and retain high quality talents to ensure smooth operation and to cope with 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 (the "Scheme"). The Scheme has been put in place to incentivize employees, and to encourage them to work hard to enhance the value and promote the long-term growth of the Group.

SUBSEQUENT EVENTS

There was no important events affecting the Group that have occurred since the end of 31 December 2015.

MAJOR AWARDS

The Group received various awards in 2015. Wuzhou Shenguan was granted "Meat Packaging Material Production Enterprise with the Most Valuable Brand (肉類包括物料生產最具價值品牌企業)" by China Meat Association, as well as the titles of "2015 Top 100 Manufacturers of Guangxi (2015廣西企業100強)", "Guangxi's Top 50 Production Industry 2015 (2015廣西製造業50強)", "2015 Top 50 Private Enterprises of Guangxi (2015年廣西民營企業50強)", etc. announced by the Confederation of GuangXi's Enterprises and Employers. In the meantime, the "Research and Development Project on Thin Collagen Sausage Casing" (薄型膠原蛋白腸衣研發項目) was awarded "the Second Prize of Wuzhou Science and Technology Advancement" (梧州市科學技術進步獎二等獎) on the Municipal Science and Technology Achievement Award Ceremony and Work Conference held by the Wuzhou People's Government. In addition, the Company was awarded "CAPITAL Outstanding China Enterprise Awards (資本中國傑出企業成績獎)" from Capital Magazine.

PROSPECTS AND STRATEGIES

The "Thirteenth Five-Year Plan" is a decisive stage for China in building comprehensively a moderately prosperous society. In 2016, the beginning year of the Thirteenth Five-Year Plan, the central government requires to set up firmly and implement consistently an innovative, coordinated, green, open, and sharing development concept, so as to adapt to the new normal of economic development, adhere to the reforms and opening up, adhere to the keynote of seeking progress in stability, persevere in the strategy of maintaining stable growth, adjusting economic structure, benefiting the people, and avoiding risks, maintain a rational economic operation, strengthen structural reforms, execute the strategy of de-capacity, de-stocking, de-leverage and cost-reducing while expand the aggregate domestic demand moderately, enhance the quality and efficiency of the supply system, improve the effectiveness of investment, and strengthen the continuous growth impetus, so as to improve the overall productivity level of China's society.

Along with the economic growth, the steady increase of the proportion of the middle class favor to the successful transformation of China's economy towards "consumption" type, shifting from "eat more" to "eat better". In respect of meat consumption, the pork consumption market is shifting from quantity-oriented to quality-oriented. There is an increasing awareness of the importance of food safety, product diversification, nutrition and convenience among the consumers.

The Group will enter the phase of transformation and upgrade in 2016. The Group will focus on the strategy of "de-stocking, lowering costs and maintaining quality", and strengthen the development of group management model and sales and marketing system and enhances its leadership in the collagen sausage casing market, and implement innovative development so as to provide a solid start and foundation for future development.

The Group will adopt the following strategies for its development which enhances its leadership in the collagen sausage casing market:

Firstly, the de-stocking: The Group will fully review and categorize its inventories, optimize the management of goods stock-in, positioning, and stock-out, increase the efforts in de-stocking, and adjust its de-stocking strategy in a timely manner in response to the market changes to maintain a reasonable stock level and minimize risks.

Secondly, the cost control: The Group will adopt the "Four Strict" policy – strictly control the procurement cost, strictly control wastage in the production process, strictly manage the use of machinery accessories and strictly execute a system of delicacy management, in order to achieve the goal of cost savings.

Thirdly, the enhancement and stabilization of product quality: 2016 is a critical stage for the comprehensive upgrade and stabilization of the product quality of the Group's collagen casing products. Therefore, the Group will further strengthen its production of new products to meet the market needs and the demand of its customers, in order to accomplish the operating targets for 2016.

In respect of the implementation of innovative development, while strengthening the development to maintain its leadership in the collagen casing market, the Group will capitalize on its core collagen technology and will achieve transformation and upgrade through product diversification with a focus on the health industry:

1. Collagen food products – make use of the collagen processing technology possessed by the Group to develop and produce collagen powder and collagen food products;

2. Skincare products – develop and produce collagen based skincare products through Guangxi Luxianna and Nanning Nuyou;

3. Medical grade collagen products – Medical grade collagen materials is an emerging biotechnology sector but widely used in Europe and the United States. Currently, Guangdong Victory, a 51-percent-owned subsidiary of the Group, is already capable of and possesses the permits for producing medical-grade collagen raw materials. The Group will enhance the efforts in marketing and promotion, expanding the sales of medical collagen raw materials while pushing the clinical tests for the products such as collagen wound dressing and inner-body hemostatic cotton, and obtain the production permits as soon as possible; and

4. Medical products – expand capability of its existing production lines through Sanjian Pharmaceutical to achieve a certain production scale.

The Group will spend one year to lay a solid foundation for a clear and good start by the end of 2016 for the Group's production diversification.

Facing with economic slowdown, market competition and the various financial risks, the Group is confident that the above measures will continue to boost the sustainable development of the Group, promote the development of collagen sausage casing business, and further widen the technological application of collagen, thus maximizing Shareholders' return in the long run.

OTHER INFORMATION

Dividends

The Directors recommend the payment of a final dividend of HK3.2 cents per ordinary share for the Year to shareholders whose names appear on the register of members of the Company on 3 June 2016 (Friday) out of the share premium account of the Company. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 17 June 2016 (Friday).

Closure of Register of Members

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 25 May 2016 (Wednesday), the register of members of the Company will be closed from 20 May 2016 (Friday) to 25 May 2016 (Wednesday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 19 May 2016 (Thursday). For determining entitlement to the final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 31 May 2016 (Tuesday) to 3 June 2016 (Friday), both dates inclusive. The record date will be 3 June 2016 (Friday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 30 May 2016 (Monday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final dividend (if approved at the forthcoming annual general meeting), all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch 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.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Month	Number of shares repurchased	Number of shares cancelled	Price per share Highest	Price per share Lowest	Total price paid
			HK$	*HK$*	*HK$*
March 2015	2,000,000	2,000,000	2.20	2.15	4,383,000.00
August 2015	6,000,000	6,000,000	1.16	1.07	6,727,000.00
September 2015	16,000,000	16,000,000	1.11	0.98	16,761,000.00
October 2015	1,000,000	1,000,000	1.07	1.02	1,050,000.00
November 2015 *(Note)*	2,000,000	2,000,000	1.17	1.15	2,344,000.00
December 2015 *(Note)*	5,000,000	5,000,000	1.03	0.97	5,015,000.00
	32,000,000	32,000,000			36,280,000.00

Note: The 7,000,000 shares repurchased during November and December 2015 were subsequently cancelled on 27 January 2016.

The purchase of the Company's shares during the Year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting held in 2015, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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

Model Code Set out in Appendix 10 to the Listing Rules

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

The Company have made specific enquiry of all Directors and all the Directors have confirmed that they have complied with the Model Code during the Year. 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 Year.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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 Company has not appointed any chief executive officer and the daily operations of the Group are delegated to other executive Directors, the management and various department heads. 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. 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 the chief executive. The Company will make timely announcement if the chief executive has been appointed.

Audit Committee

The audit committee of the Board had reviewed the consolidated annual results of the Group for the Year and considered that the Company had complied with all applicable laws, accounting standards and requirements, and had made adequate disclosure.

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

Hong Kong, 18 March 2016

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.