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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)

2016 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2016	2015
	<i>RMB million</i>	<i>RMB million</i> (Restated)
Financial highlights		
Revenue	430.7	435.7
Gross profit	144.2	219.4
Profit before tax	93.1	185.6
Income tax expense	(14.2)	(34.5)
Profit for the period attributable to owners of the Company	89.0	151.1
Profit for the period attributable to owners of the Company (excluded amortization of technology knowhow)	98.7	151.1
Basic earnings per share, (RMB cents per share)	2.73	4.59
Diluted earnings per share, (RMB cents per share)	2.73	4.59
Financial ratios		
Gross profit margin	33.5%	50.3%
Net profit margin	20.7%	34.7%

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 2016 (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 2016 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 19 August 2016.

Revenue of the Group was approximately RMB430.7 million for the Period, slightly decreased by 1.1 per cent from approximately RMB435.7 million for the six months ended 30 June 2015 (the “Prior Period”). Profit attributable to owners of the Company decreased by 41.1 per cent to approximately RMB89.0 million from approximately RMB151.1 million of the Prior Period. Excluding the non-cash effect arising from the amortization of technology knowhow that is attributable to shareholders to the net profit of the Group of RMB9.7 million, profit attributable to owners of the Company for the Period decreased by approximately 34.7 per cent. Basic earnings per share of the Group were RMB2.73 cents for the Period (Prior Period: RMB4.59 cents).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
			(Restated)
REVENUE	5	430,697	435,691
Cost of sales		(286,493)	(216,337)
Gross profit		144,204	219,354
Other income and gains	5	38,647	22,028
Selling and distribution expenses		(8,805)	(5,713)
Administrative expenses		(73,459)	(42,162)
Finance costs	6	(7,507)	(7,864)
PROFIT BEFORE TAX	7	93,080	185,643
Income tax expense	8	(14,154)	(34,546)
PROFIT FOR THE PERIOD		78,926	151,097
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		(3,262)	(1,760)
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(3,262)	(1,760)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		75,664	149,337

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
			(Restated)
Profit attributable to:			
Owners of the Company		88,962	151,149
Non-controlling interests		(10,036)	(52)
		<u>78,926</u>	<u>151,097</u>
Total comprehensive income attributable to:			
Owners of the Company		85,700	149,389
Non-controlling interests		(10,036)	(52)
		<u>75,664</u>	<u>149,337</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
	10		
Basic (RMB cents per share)		<u>2.73</u>	<u>4.59</u>
Diluted (RMB cents per share)		<u>2.73</u>	<u>4.59</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

		30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,281,911	1,310,261
Prepaid land lease payments		121,099	122,619
Goodwill		47,486	47,486
Other intangible assets		217,071	242,924
Available-for-sale investment		37,100	37,100
Deferred tax assets		47,084	56,326
Long term prepayments		17,479	15,642
Total non-current assets		1,769,230	1,832,358
CURRENT ASSETS			
Financial asset at fair value through profit or loss		353	353
Inventories		942,275	921,958
Trade and bills receivables	11	123,114	181,904
Prepayments, deposits and other receivables		94,906	191,920
Pledged deposits		367,526	354,727
Cash and cash equivalents		226,698	210,784
Total current assets		1,754,872	1,861,646
CURRENT LIABILITIES			
Trade and bills payables	12	70,719	42,726
Other payables and accruals		101,174	114,067
Interest-bearing bank borrowings		391,622	544,545
Tax payable		4,760	9,985
Total current liabilities		568,275	711,323
NET CURRENT ASSETS		1,186,597	1,150,323
TOTAL ASSETS LESS CURRENT LIABILITIES		2,955,827	2,982,681

		30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
	Note		
NON-CURRENT LIABILITIES			
Deferred income		31,322	32,663
Deferred tax liabilities		68,160	79,523
Total non-current liabilities		99,482	112,186
Net assets		2,856,345	2,870,495
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	28,060	28,135
Reserves		2,748,575	2,752,614
		2,776,635	2,780,749
Non-controlling interests		79,710	89,746
Total equity		2,856,345	2,870,495

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, pharmaceutical products, skin care and health care products and bioactive collagen 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 2015.

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 2015 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 the following new amendment to HKFRSs for the first time for the current period financial information:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011) <i>Annual Improvements 2012-2014 Cycle</i>	<i>Equity Method in Separate Financial Statements</i> Amendments to a number of HKFRSs

The adoption of these revised standards 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 new and revised HKFRSs that have been issued but not yet effective.

3. COMPARATIVE FIGURES

Certain comparative amounts have been restated in the unaudited interim financial information to conform with the presentation in the annual consolidated financial statement. The details of the restatement are set out below:

Business combination

In accordance with HKFRS 3 (Revised) *Business Combination*, certain provisionally estimated fair values of assets and liabilities acquired on the acquisition of 廣西梧州三箭製藥有限公司 (Guangxi Wuzhou Sanjian Pharmaceutical Company Limited, ("Sanjian Pharmaceutical")) in March 2015 were used for the six months ended 30 June 2015. The fair values arising from the acquisition that were applied provisionally as at 30 June 2015 were re-assessed and calculated during the year ended 31 December 2015. Accordingly, comparative figures have been restated to reflect the finalised fair values of Sanjian Pharmaceutical's assets and liabilities.

The effect of the above restatement on the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2015 is set out below:

	RMB'000
Decrease in provisional gain on bargain purchase as included in other income and gains	(2,586)
Effect on profit	(2,586)

4. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of 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 derived from the sale of edible collagen sausage casing products, no operating segments have been aggregated to form the above reportable operating segment.

5. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Revenue		
Sale of goods	430,600	435,691
Service income	97	–
	430,697	435,691
Other income and gains		
Bank interest income	10,875	11,200
Gain on disposal of financial assets at fair value through profit or loss	456	7,653
Foreign exchange gains, net	46	769
Government grants	1,376	1,377
Sales of dried meat products	220	398
Compensation income from contract in progress	25,643	–
Others	31	631
	38,647	22,028

6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans	9,406	11,650
Less: Government grants	(1,899)	(3,786)
	7,507	7,864

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	47,332	47,195
Less: Amount capitalised	(12,887)	(23,494)
	34,445	23,701
Amortisation of prepaid land lease payments	1,520	1,513
Amortisation of other intangible assets	25,852	–
Impairment of trade receivables	4,093	5,241
Loss on disposal of items of property, plant and equipment	12	6

8. 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 [2011] No. 58).

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax charge for the period		
– PRC	10,970	32,822
– Hong Kong	461	658
Deferred tax	2,723	1,066
Total tax charge for the period	14,154	34,546

9. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividend declared and paid for 2015 – HK3.2 cents (2014: HK4.1 cents) per ordinary share	88,211	106,928

The directors of the Company did not propose any interim dividend in respect of the reporting period (2015: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2016 is based on the profit for the period attributable to owners of the Company of RMB88,962,000 (six months ended 30 June 2015: RMB151,149,000 (restated)) and the weighted average number of ordinary shares of 3,258,716,000 (six months ended 30 June 2015: 3,291,128,000) in issue during the period ended 30 June 2015.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2016.

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 Company of RMB151,149,000 (restated). 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 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

11. 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 certain 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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 3 months	82,354	170,640
3 to 4 months	26,700	3,744
Over 4 months	14,060	7,520
	123,114	181,904

12. TRADE AND BILLS PAYABLES

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 1 month	12,766	32,411
1 to 2 months	32,934	2,090
2 to 3 months	5,452	1,016
Over 3 months	19,567	7,209
	70,719	42,726

13. SHARE CAPITAL Shares

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (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:		
3,259,276,000 (31 December 2015: 3,268,276,000) ordinary shares of HK\$0.01 each	<u>32,593</u>	<u>32,683</u>
	RMB'000	RMB'000
Equivalent to	<u>28,060</u>	<u>28,135</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 2016	3,268,276,000	32,683	466,976	28,135	488,999	517,134
Cancellation of shares repurchased (note)	(9,000,000)	(90)	(9,193)	(75)	(7,668)	(7,743)
Final 2015 dividend	<u>–</u>	<u>–</u>	<u>(104,297)</u>	<u>–</u>	<u>(88,211)</u>	<u>(88,211)</u>
At 30 June 2016	<u>3,259,276,000</u>	<u>32,593</u>	<u>353,516</u>	<u>28,060</u>	<u>393,120</u>	<u>421,180</u>

Note:

During the six months ended 30 June 2016, the Company repurchased its own ordinary shares of 2,000,000 (2015: 200,000,000) on the Stock Exchange for an aggregate consideration of HK\$1,917,000 (equivalent to RMB1,618,000) (2015: HK\$4,367,000 equivalent to RMB3,459,000) and together with the 7,000,000 (2015: 12,100,000) repurchased shares which were held as treasury shares as at 31 December 2015, 9,000,000 (31 December 2015: 37,100,000) ordinary shares were cancelled by the Company. Upon the cancellation of the 9,000,000 (31 December 2015: 14,100,000) shares repurchased, the issued share capital of the Company was reduced by the par value of HK\$90,000 (equivalent to RMB75,000) and the premium paid on the repurchase of these cancelled shares of HK\$9,193,000 (equivalent to RMB7,668,000), including transaction costs, was deducted from share premium of the Company. As at 30 June 2016, no ordinary shares were repurchased but not yet cancelled by the Company.

14. EVENT AFTER THE REPORTING PERIOD

On 7 July 2016, a wholly-owned subsidiary of the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the independent third party agreed to sell and the subsidiary agreed to acquire a property in Singapore at a cash consideration of SGD16.1 million (equivalent to RMB79.7 million). The transaction has not been completed at the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the Period, the world's economy experienced subdued growth with weak international business activities and consumer confidence while China was facing persistent downward pressure on its domestic economy. During the Period, gross domestic product ("GDP") in China recorded a year-on-year increase of 6.7 per cent, reflecting the substrained slowdown in economic growth.

Affected by the macro-economic environment, meat production in China had seen a negative growth in the Period. During the Period, according to the National Bureau of Statistics, the output of fresh meat – pork, beef, mutton and poultry decreased by 1.3 per cent year-on-year to 38.53 million tons, in which pork production was 24.73 million tons, representing a decline of 3.9 per cent.

Due to the decelerating economic growth, the world's collagen casing market was facing overcapacity. Given foreign sausage casing manufacturers continued to boost sales in China and local small-scale collagen sausage casing manufacturers reduced their selling prices, competition intensified generally in the market and resulted in a decline of average selling price of collagen casing products. During the Period, the Group focused on the strategy of "de-stocking, lowering costs and maintaining quality" as planned, and consolidated its leadership in the collagen sausage casing market with the major efforts put in developing with innovation.

Business Review

In view of the pressure arising from decelerating economic growth and intensified competition in the collagen sausage casing market, the Group adopted various measures and maintained its market share in the collagen casing market. During the Period, the Group recorded an increase in sales volume but overall revenue was affected as the Group actively cleared inventory by price adjustment. Revenue for the Period was approximately RMB430.7 million, representing a slight decrease year-on-year of approximately 1.1 per cent.

During the Period, the Group adopted policies to increase energy saving and reduce energy consumption, raise the level of mechanization, save labor force and monitor the credit of the customers closely, which led to decrease in the overall operating costs and partially offset the impact of the decrease in gross profit margin, and enabled the Group to maintain a stable position in production, business operation and liquidity.

During the Period, the profit attributable to owners of the Company reduced by approximately 41.1 per cent to approximately RMB89.0 million. Excluding the non-cash effect arising from the amortization of technology knowhow that is attributable to shareholders to the net profit of the Group of approximately RMB9.7 million, profit attributable to owners of the Company for the Period decreased by approximately 34.7 per cent. Earnings per share was RMB2.73 cents.

The Group continued to make steady progress in the development of core collagen applicable technologies. Collagen food products are currently under product testing, compiling product standard and marketing strategy planning. They are expected to be available for sales in the market in the fourth quarter of 2016. Meanwhile, new products of collagen skincare developed by the Group through Nanning Nuyou Health Care Products Company Limited (“Nanning Nuyou”) and Guangxi Luxianna Biotechnology Development Company Limited (“Guangxi Luxianna”) are under trial production and marketing strategy planning, and the products are expected to be launched for sale in domestic market in the fourth quarter of 2016. During the Period, contributions from new products to the revenue of the Group were still limited.

During the Period, the revenue and profit of Guangdong Victory Biotech Co., Ltd. (“Guangdong Victory”), which the Group acquired in the second half of 2015, was lower than originally expected. The Group will actively expand customer network and accelerate new product development, and will review closely and decide whether an impairment provision for its goodwill and technology knowhow should apply.

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. These products are gradually marketed and adopted. At the same time, the Group also made great efforts in enhancing internal management, streamlining production processes and improving efficiency.

After the completion of acquisitions of equity interests in several companies during 2015, the Group has expanded the coverage of its collagen applications to the health industry and China’s strategic emerging industry, and its product offerings are extended 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 Period, in response to the market situation, the Group used its bargaining power of bulk purchases to reduce the purchase price of raw materials and effectively controlled the production cost, increasing the competitiveness of the Group's products in the future.

Technological Research & Development

As the largest enterprise utilizing 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 respect of the sausage casing business, as at 30 June 2016, the Group had 40 valid patents granted by the State Intellectual Property Office of China and 10 patents applications have been accepted by the relevant authorities and are 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.

Guangxi Wuzhou Zhongguan Testing Technology Services Co., Ltd. ("Wuzhou Zhongguan"), a subsidiary of the Group, is able to examine over 200 indicators, including heavy metals and microelements, pesticide residues, microorganisms and proteins. It 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. Currently, Wuzhou Zhongguan has started to 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 solid foundations for the Group's development into a base of collagen material, thereby promoting the sound development of high-end foods, health care products and medications in the health industry.

The Group's production of collagen sausage casings has passed the assessment 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 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 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 relationships based on mutual trust with its business partners and has built 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 Period, 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 for the Period slightly decreased by approximately 1.1 per cent to approximately RMB430.7 million from approximately RMB435.7 million for the Prior Period. The decrease in revenue is mainly attributed to the continuous intense competition from foreign sausage casing suppliers and local small-scale collagen sausage casing manufacturers, 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 clear inventories during the Period. However, leveraging on the strategy of boosting sales volume with lower margin and a better customer network, the Group successfully increased the sales volume which offset the effect of the decrease of average price.

Cost of Sales

Cost of sales increased by approximately 32.4 per cent to approximately RMB286.5 million for the Period from approximately RMB216.3 million for the Prior Period, mainly reflecting the increase of sales volume by approximately 33.8 per cent. However, the Group also adopted various measures to control cost. The cost of raw materials increased by approximately 24.7 per cent to approximately RMB113.2 million, charges for energy increased by approximately 30.7 per cent to approximately RMB66.4 million, and the direct labor cost increased by approximately 44.1 per cent to approximately RMB55.9 million.

Gross Profit

Gross profit decreased by approximately 34.3 per cent to approximately RMB144.2 million for the Period from approximately RMB219.4 million for the Prior Period. Gross profit margin decreased from approximately 50.3 per cent to approximately 33.5 per cent for the Period. The decrease in gross profit margin was mainly caused by the decrease in the price of the products of the industry as a whole and the strategy adopted by the Group to boost sales volume with lower margin to clear inventory, which reduced the average selling price of the Group's products. The Group had adopted various measures to control the costs, but they were not able to offset the effect of the decrease in average selling price.

Other income and gains

Other income and gains increased by 75.4 per cent from approximately RMB22.0 million (restated) for the Prior Period to approximately RMB38.6 million for the Period.

In 2012, the Group entered into a land development investment contract (the “Development Contract”) with an independent third party. The costs incurred by the Group in connection with the Development Contract comprised mainly the costs incurred in demolition and relocation and land acquisition compensation fees during the period of land development (the “Contract Costs”). During the Period, since the land’s auction occurred later than expected, the Group had continuous negotiation with such independent third party on withdrawing from the Development Contract. On 2 March 2016, the Group entered into a settlement agreement with such independent third party, pursuant to which, such independent third party agreed to transfer the land development project from the Group back to such independent third party, and refund the Contract Costs together with the accrued return of 10 per cent per annum. The increase of other income and gains was mainly attributed to the return received from the Development Contract of approximately RMB25.6 million.

Selling and distribution costs

Selling and distribution expenses increased by approximately 54.1 per cent from approximately RMB5.7 million for the Prior Period to approximately RMB8.8 million for the Period, which was mainly due to the increase of advertising expenses and the wages for the sales staff for the promotion of various new products. Selling and distribution expenses as a percentage of revenue increased from approximately 1.3 per cent for the Prior Period to approximately 2.0 per cent for the Period.

Administrative expenses

Administrative expenses increased by approximately 74.2 per cent from approximately RMB42.2 million for the Prior Period to approximately RMB73.5 million for the Period.

For the technologies acquired by the Group through the acquisition of Guangdong Victory in August 2015, the intangible assets will be amortized over five years. The related amortization expense was approximately RMB25.4 million for the Period. After deducting the minority interest and deferred taxation of Guangdong Victory, the effect of the related amortization expense on the net profit of the Group was approximately RMB9.7 million.

Finance costs

Finance costs dropped by approximately 4.5 per cent from approximately RMB7.9 million for the Prior Period to approximately RMB7.5 million for the Period.

Income tax expenses

Income tax expenses for the Period was approximately RMB14.2 million as compared with approximately RMB34.5 million for the Prior Period. 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 and they both engage in the industries encouraged by the government policies. The applicable tax rate for both Wuzhou Shenguan and Shensheng Collagen was 15 per cent.

For the Prior Period and the Period, the effective tax rates of the Group were calculated at approximately 18.6 per cent and 15.2 per cent of profit before tax, respectively. The decrease of the effective tax rates was mainly due to utilisation of the provision of dividend withholding tax during the Period.

Profit attributable to owners of the Company

In view of the aforesaid reasons and adding back of the loss attributable to minority interests of approximately RMB10.0 million, the profit attributable to owners of the Company decreased by 41.1 per cent from approximately RMB151.1 million (restated) for the Prior Period to approximately RMB89.0 million for the Period. Excluding the non-cash effect arising from the amortization of technology knowhow to the net profit of the Group of RMB9.7 million, profit attributable to owners of the Company for the Period decreased by approximately 34.7 per cent as compared to that of the Prior Period.

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 the bank borrowings provided by its principal banks.

As at 30 June 2016, the cash and cash equivalents together with the pledged deposits amounted to approximately RMB594.2 million, representing an increase of approximately RMB28.7 million from the end of 2015. Of these balances, approximately 95.9 per cent was denominated in Renminbi, and the remaining 4.1 per cent was denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2016, the total bank borrowings of the Group amounted to approximately RMB391.6 million, representing a decrease of approximately RMB152.9 million (as at 31 December 2015: approximately RMB544.5 million), and all the bank borrowings were wholly repayable within one year. Of which, the total bank borrowings denominated in Renminbi were approximately RMB350.0 million, while the total bank borrowings denominated in Hong Kong dollars were HK\$48.7 million (translated to approximately RMB41.6 million).

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB202.6 million as at 30 June 2016, representing an increase of approximately RMB181.6 million as compared to that at the end of 2015. The debt-to-equity ratio was approximately 13.7 per cent as at 30 June 2016 (as at 31 December 2015: approximately 19.0 per cent). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Period, the net cash inflow of approximately RMB151.7 million and RMB115.9 million were generated from operating activities and investing activities respectively, while financing activities utilized approximately RMB252.2 million. The net cash inflow from investment activities was mainly attributable to the cash flow from the recovery of Contract Costs under the Development Contract and the return generated therefrom, which were partly offset by purchase of properties, plants and equipment and the cash outflow arising from the increase of pledged deposits. According to the accounting standards, the pledged deposits were not classified as cash and cash equivalents and therefore it was defined as cash outflow from investing activities in the cash flow statement. The net cash outflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowing and the new bank borrowings, the payment of 2015 final dividend and the repurchase of shares.

Prepayments, deposits and other receivables

As at 30 June 2016, prepayments, deposits and other receivables decreased by approximately RMB97.0 million as compared to that at the end of 2015, which was mainly due to the recovery of the Contract Costs in the Development Contract of approximately RMB128.1 million during the Period.

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 are 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 of the Group during the Period amounted to approximately RMB18.8 million, which was mainly used for the acquisition of property, plant, and equipment, and the capital commitments as at 30 June 2016 amounted to approximately RMB122.8 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group throughout 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 30 June 2016, pledged bank deposits amounted to approximately RMB367.5 million in total.

Contingent liabilities

As at 30 June 2016 and up to the date of this announcement, the Group was not aware of any material contingent liabilities.

Significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures

The Group had no significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures during the Period.

Acquisition of Guangdong Victory and Revenue Guarantee

Pursuant to the equity transfer agreement in respect of acquisition of 51 per cent equity interest of Guangdong Victory entered into between the Group and Enneford Industrial Limited (“Enneford Industrial”) on 20 July 2015, Enneford Industrial guaranteed that the audited revenue of Guangdong Victory for the year ended 31 December 2015 should reach RMB20.0 million (the “Revenue Guarantee”) and RMB20.0 million of the consideration for the Acquisition (the “Third Tranche Consideration”) should be paid by the Group to Enneford Industrial within 10 business days upon the fulfillment of the Revenue Guarantee. Given that the relevant Revenue Guarantee is not fulfilled, upon further negotiations, the Group and Enneford Industrial agreed that the Third Tranche Consideration shall only be payable by the Group after the accumulated total revenue of Guangdong Victory commencing from 1 January 2016 reaches RMB20 million.

Human resources

As at 30 June 2016, the Group had approximately 3,200 contract employees. During the Period, the total remuneration and employees’ benefit expenses charged to profit or loss were approximately RMB74.7 million (first half of 2015: approximately RMB57.1 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 with reference to the market conditions and individual qualifications and experience.

Major awards

In 2016, the Group was again named on the list of “High-tech Enterprises” (高新技術企業) which was jointly announced by the Science and Technology Department of Guangxi, the Finance Department of Guangxi, the Guangxi State Administration of Taxation and the Local Taxation Bureau of Guangxi, maintaining its title of “High and New Technology Enterprise” (高新技術企業). The Group was also awarded honorary titles of “IUR (Industry-university-research) Integrated Enterprise in Guangxi Zhuang Autonomous Region” (廣西壯族自治區產學研用一體化企業), “Innovative Enterprise for Executing Performance Excellence Model in Guangxi” (廣西實施卓越績效模式先進企業稱號) and “Innovative Enterprise for Executing Performance Excellence Model in Guangxi ‘Extraordinary Award’” (廣西實施卓越績效模式先進企業『特別獎』). The Group is also awarded the national-grade “Post-doctoral research and development work station” (博士後科研工作站) and “Highland for talents in Guangxi” (廣西人才小高地). In addition, thin collagen sausage casing of the Group received the “Guangxi Zhuang Autonomous Region Innovative Industrial Product Award” (廣西壯族自治區工業新產品獎).

Events subsequent to the Period

On 7 July 2016, a wholly-owned subsidiary of the Group entered into a sale and purchase agreement with an independent third party to acquire a property situated in Singapore (the “Property”) for SGD16.1 million (approximately RMB79.7 million). The above transaction is expected to be completed on 25 August 2016. The Group plans to use the Property for research and development, production and sales of various new products.

As all the applicable percentage ratios in respect of the above transaction are below 5%, the above transaction is exempt from the requirements of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Prospects and strategies

In the second half of 2016, the global economic growth will continue to slow down and China’s economy will continue to face persistent downward pressure. The Chinese government is committed to maintaining economic growth in a reasonable range and devoted efforts in strengthening structural reforms. While expanding the aggregate domestic demand moderately, the government seeks to reduce capacity, de-stock, de-leverage and reduce costs, and enhances the quality and efficiency of the demand and 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, yet enterprises are still facing a difficult operating environment.

The Group expects that, along with the economic growth, the rise and expansion of the middle class will be beneficial to the successful transformation of China's economy towards "consumption" type, shifting from "eat more" to "eat better". The meat consumption market is changing from a quantity-oriented market to a quality-oriented market. There is an increasing awareness of the importance of food safety, product diversification, nutrition and convenience among the consumers, providing the Group with a long-term room for growth, notwithstanding the challenging environment in the near term.

According to the Catalogue of Key Products and Services in Strategic Emerging Industries (戰略性新興產業重點產品和服務指導目錄) (2016 Edition, consultant paper) promulgated by the National Development and Reform Commission of China on 5 July 2016 ("2016 Catalogue"), the Group has set its strategy of product diversification – with the collagen technology as the core, collagen sausage casing products as the foundation, to develop in the direction of collagen-based foods, healthcare products, medical products, skincare products and medical materials – which is consistent with the country's emerging industries for the 21st century. Furthermore, various collagen products under development of the Group were included in the 2016 Catalogue.

The Group will put efforts to: firstly, promote the clinical trial of biomedical materials including collagen wound dressing and collagen inner body hemostatic cottons and obtain production permits as soon as practicable; secondly, accelerate the research and development of edible collagen supplements; thirdly, accelerate the launch of collagen skincare products into the market; and fourthly, expand production capacity of current pharmaceutical products through Guangxi Wuzhou Sanjian Pharmaceutical Company Limited to achieve a certain scale.

The Group expects that these strategic new products will be launched gradually for sale in the second half of this financial year and opens an important page of the Group's diversified development.

In respect of management, in the second half of 2016, the Group will maintain its focus on the strategy of "de-stocking, lowering costs and maintaining quality", strengthen its development of group management model and establishment of sales and marketing system, enhance its leadership in the collagen sausage casing market, as well as implement innovative development.

The Group will fully review and categorize its inventories, and adjust its de-stocking strategy in a timely manner in response to the market changes to maintain a reasonable stock level and minimize inventory risks.

The Group will continue to strictly control the procurement cost and the consumption of raw materials and energy, and strictly execute a system of delicacy management, in order to ensure control in production cost. To accomplish the operating targets for this year, the Group will keep enhancing and stabilizing the product quality and further strengthen its production of new products to meet the market needs and the demand of its customers.

Despite the economic downturn, industry competition and various risks in the market, the Group is confident that the above measures will continue to boost the sustainable development of the Group, maintain the leadership of collagen sausage casing business in China and further widen the technological application of collagen, hence maximizing shareholders' return in the long run.

OTHER INFORMATION

Payment of interim dividends

In view of the capital expenditure to be incurred by the Group in the foreseeable future, no interim dividend was proposed by the Board in respect of the Period (Prior Period: Nil).

Purchase, redemption or sale of listed securities of the Company

During the Period, the Company purchased certain of its shares on The Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. The summary details of the share repurchase 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\$	
January 2016	<u>2,000,000</u>	<u>2,000,000</u>	<u>0.97</u>	<u>0.93</u>	<u>1,917,200</u>

7,000,000 shares repurchased during November and December 2015 were cancelled on 27 February 2016.

The purchase of the Company's shares during the Period was effected by the Directors, pursuant to the general mandate granted by the shareholders at the annual general meeting of the Company 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 Company.

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 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 had 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 Group has reviewed the condensed consolidated unaudited interim results of the Group for the Period and considered that the interim results had complied with all applicable accounting standards and the Listing Rules.

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

Hong Kong, 19 August 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.