



Shenguan Holdings (Group) Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00829



Interim Report 2010

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Zhou Yaxian (*Chairman and President*)
Ms. Cai Yueqing
Mr. Shi Guicheng
Mr. Ru Xiquan

NON-EXECUTIVE DIRECTOR

Mr. Low Jee Keong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

COMPANY SECRETARY

Mr. Ng Yuk Yeung *FCCA CPA CFA*

LEGAL ADVISORS AS TO HONG KONG LAWS

Loong & Yeung
Suites 2001-2005, 20/F
Jardine House
1 Connaught Place
Central
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG OFFICE

Unit 2902, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

MAINLAND OFFICE

29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
Bank of Communications
China Construction Bank

AUDITORS

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

COMPLIANCE ADVISOR

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
Central
Hong Kong

INFORMATION FOR INVESTORS

LISTING INFORMATION

Listing: Hong Kong Stock Exchange
Stock code: 829
Ticker Symbol
Reuters: 0829.HK
Bloomberg: 829 HK Equity

INDEX CONSTITUENT

Hang Seng Composite Index
Hang Seng Composite Industry Index
– Consumer Goods
Hand Seng Composite MidCap Index

KEY DATES

13 October 2009
Listed on Hong Kong Stock Exchange

30 August 2010
Announcement of 2010 Interim Results

15 September 2010 to 17 September 2010
(both days inclusive)
Closure of Register of Members

On or around 30 September 2010
Payment of Interim Dividends

REGISTRAR & TRANSFER OFFICES

Principal:

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch:

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

SHARE INFORMATION

Board lot size: 2,000 shares

Shares outstanding as at 30 June 2010
1,660,000,000 shares

Market capitalization as at 30 June 2010
HK\$11,586,800,000

Basic earnings per share for 2010
Half year RMB13.39 cents

Dividend per share for 2010
Half year HK6.0 cents

ENQUIRIES CONTACT

Mr. Ng Yuk Yeung
Financial Controller

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WEBSITE

www.shenguan.com.cn

KEY FINANCIAL HIGHLIGHTS

Financial and Operating Highlights

	2010	2009	change
	For the six months ended 30 June		
Total Production Volume (million meters)	1,315.7	783.7	+67.9%
Total Sales Volume (million meters)	1,051.2	711.6	+47.7%
Revenue (RMB million)	475.3	317.2	+49.9%
Profit Attributable to Owners of the Company (RMB million)	222.3	129.0	+72.2%
Basic Earnings Per Share (RMB cents)	13.39	N/A	N/A
Dividend Per Share – Interim (HK cents)	6.0	N/A	N/A
Cash Inflow from Operation (RMB million)	129.9	163.7	-20.6%

	1H2010	FY2009	change
Total Assets (RMB million)	1,918.9	1,752.8	+9.5%
Inventory Turnover Day (days)	81.3	43.6	+37.7 days
Trade Receivables Turnover Day (days)	30.5	24.2	+6.3 days
Trade Payables Turnover Day (days)	44.5	54.4	-9.9 days

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

Despite the substantial challenges brought by the slow recovery of the global economy, the widespread credit crisis in Europe, and the continuous occurrence of natural disasters in Mainland China, the Chinese economy sustained a speedy growth. It was driven by both domestic and foreign demands. The national income as well as people's living standard also kept rising, which provided support to the development of the consumer industry of China during the first half of 2010.

According to the preliminary forecast of the National Bureau of Statistics of China, during the first half of 2010, the GDP of the PRC was approximately RMB17,284.0 billion, representing a growth of approximately 11.1% over the corresponding period of last year. The per capita disposable income of urban residents was RMB9,757 and the per capita cash income of rural residents was RMB3,078 respectively. The growth rates in real terms were 7.5% and 9.5% respectively, after eliminating the pricing factor. The growth rate of per capita consumption expenditure of urban residents in real terms was 7.2%, while the actual growth rate of per capita living cash expenditure of rural residents in real terms was 8.5%, reflecting an uprising trend in both income and consumption power of urban and rural residents.

With rapid economic development of the PRC, the rising income of the residents and the urbanization, the nationals are continuously seeking to upgrade their living standards and show growing concerns on health and nutrition. Their purchasing power of and demand for processed meat products has been increasing accordingly. Being the largest manufacturer of edible collagen sausage casings in the PRC, Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (collectively, the "Group") has expanded its business in due course so as to capture every opportunity arising for development.

During the six months ended 30 June 2010 (the "Period"), the Group recorded a revenue of approximately RMB475.3 million, representing an increase of 49.9% over the corresponding period in 2009, which mainly reflected the increase in sales volume of the Group due to the enhanced productivity and increased variety of products.

Benefited from the increased number of production lines, the Group was able to manage production lines in groups based on its key products so that the need to reconfigure its machineries for the production of different kinds of products was reduced, thus enhancing the overall production efficiency. Coupled with effective improvement on energy saving technologies, the Group's profitability was increased. During the Period, profit attributable to owners of the Company was RMB222.3 million, representing a growth of 72.2% from RMB129.0 million during the corresponding period in 2009. The increase was partly attributable to the decrease in the interest of the non-controlling shareholders as a result of the completion of the Group's restructuring for listing of the Company last year.

The Board resolved the payment of an interim dividend for the Period of HK6.0 cents per share.

PRODUCT MIX

During the Period, the Group is principally engaged in the manufacturing and sale of edible collagen sausage casings, which are mainly used for the production of low temperature sausages. In light of the improvement in livelihood and rapid pace of modern life, Chinese people are more concerned about health issues and efficiency. Such changes have driven the growth in demand for sausages and in particular accelerated the development of low temperature sausages. The huge demand encouraged the diversification of the range of sausage products and more new sausage products with different ingredients and flavors were being introduced to the markets, thus increasing the demand for high quality collagen sausage casings.

During the Period, Western-style collagen sausage casing products remained a major source of income of the Group, the sales of which reached RMB443.1 million, representing a growth of 51.9% over the same period last year and accounted for 93.2% of the total revenue of the Group. The sales of Chinese-style collagen sausage casings were RMB32.2 million, up 26.3% as compared to the corresponding period in 2009 and accounted for 6.8% of the total revenue.

Mainland China is the major market of the Group's products, with approximately 95% of the sausage casings manufactured by the Group sold to the sausage manufacturers in the PRC, and the remaining products were exported mainly to South America, Southeast Asia, the United States and Europe.

MANAGEMENT DISCUSSION AND ANALYSIS

SUPPLY OF RAW MATERIALS

The major raw material for the production of edible collagen sausage casings is cattle's inner skins. It is estimated that the pricing and supply of cattle's inner skins would be relatively stable in 2010. Meanwhile, the Group has established good relationships with suppliers since the commencement of its operation, thereby effectively ensure stable supply of cattle's inner skins. During the Period, the cost of raw materials of the Group was RMB72.2 million, accounting for 40.9% of the total cost of sales. All cattle's inner skins used by the Group should undergo a hygienic inspection by the local authorities to guarantee a non-infected condition before passing on for processing, and a quarantine certificate issued by relevant authorities must be shown upon delivery.

PRODUCTION SCALE

The Group owns two production plants at Wuzhou and the number of production lines increased from 116 at the end of 2009 to 148 as at 30 June 2010. It is estimated that another 18 production lines will be added in the second half of 2010. For 2010, the Group plans to improve the energy-saving technologies of 46 production lines and to carry out an upgrading of 4 production lines to produce large-diameter sausage casings with higher selling price, so as to expand the variety of products of the Group. As at 30 June 2010, the modification on the energy-saving technologies was completed, and optimization will be continuously carried on during the operation process. On a fully utilised and annualised basis, the total production capacity of the Group was increased by 27.7% to 3,370 million meters (148 production lines at the end of June 2010) from 2,640 million meters (116 production lines at the end of 2009).

A new collagen processing plant was established by the Group in Chengdong Town, Wanxiu District, Wuzhou and it has commenced operation. The Group will expand its facilities in different phases. It is expected that when it is running at full capacity, the collagen processing plant alone can satisfy the need of collagen of approximately 200 production lines.

TECHNOLOGICAL RESEARCH AND DEVELOPMENT

With advanced production technology and high-tech research and development capability, the Group continues to consolidate its leading position in the collagen sausage casings market in the PRC. The Group will optimize its production technology in order to lower the production costs. During the Period, the Group had incurred capital expenditure of RMB12.2 million for the research and development facilities.

Moreover, as at 30 June 2010, the Group had registered two trademarks and ten patents with the State Intellectual Property Office, with another five patents being accepted for application and pending for approval.

CUSTOMER RELATIONSHIP

The Group has established a long-term relationship with the leading manufacturers of processed meat products and sausages in the PRC over the years. During the Period, the Group received orders from various overseas market, including South America, Southeast Asia, the United States and Europe.

During the Period, the Group continued to provide a range of high quality sausage casing products to a number of renowned food product suppliers in the PRC, namely Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Yurun Group Co., Ltd. (南京雨潤食品有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠) and Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Revenue

The Group's revenue increased by 49.9% from RMB317.2 million for the six months ended 30 June 2009 to RMB475.3 million for the six months ended 30 June 2010, driven by the significant growth in the sales of Western-style collagen sausage casings. During the Period, the aggregate amount of sausage casings sold by the Group was 1.05 billion meters.

Sales of Western-style collagen sausage casings increased by 51.9% from RMB291.7 million for the six months ended 30 June 2009 to RMB443.1 million for the six months ended 30 June 2010. The increase in sales of these products was principally a result of (i) an expansion of the Group's sales and marketing network in the PRC; (ii) an increase in overall market demand for these products in the PRC resulting from rapid urbanization and continuous economic development; and (iii) the Group's expansion of its scale of production in response to the rapid increase of market demand.

Cost of sales

Cost of sales increased by 46.2% from RMB120.8 million for the six months ended 30 June 2009 to RMB176.6 million for the six months ended 30 June 2010. The increase was generally in line with the increase in sales over the same period and was driven by the following factors: (i) the cost of raw materials increased by RMB22.6 million due to increased production volume; (ii) water, electricity and coal expenses increased by RMB8.1 million; and (iii) the direct labor expenses increased by RMB12.6 million, as the Group hired more workers and annually reviewed their remuneration to support its operations. During the Period, the aggregate amount of sausage casings produced by the Group was 1.32 billion meters and the Group has maintained an equipment utilization rate of 91.6%.

Gross profit

Gross profit increased by 52.1% from RMB196.4 million for the six months ended 30 June 2009 to RMB298.8 million for the six months ended 30 June 2010, while the gross profit margin remained stable and that was mainly driven by the efficient use of energy by the Group during the Period. Following the improvements in production and energy saving technologies, the Group achieved cost savings in raw material used and water, electricity and coal expenses which offset the increase in labor cost during the Period. In addition, the Group was able to protect the environment more efficiently through energy saving and emission reduction.

Other income and gains

Other income and gains increased by 348.3% from RMB3.9 million for the six months ended 30 June 2009 to RMB17.6 million for the six months ended 30 June 2010, which was mainly attributable to the increase in bank interest income.

Selling and distribution costs

Selling and distribution costs decreased by 21.0% from RMB5.2 million for the six months ended 30 June 2009 to RMB4.1 million for the six months ended 30 June 2010. Selling and distribution costs accounted for 1.6% of the revenue for the six months ended 30 June 2009 and 0.8% of the revenue for the six months ended 30 June 2010. The decrease in selling and distribution costs as a percentage of sales reflected the Group's enhancement in economies of scale.

Administrative expenses

Administrative expenses decreased by 9.5% from RMB28.1 million for the six months ended 30 June 2009 to RMB25.4 million for the six months ended 30 June 2010. The decrease in administrative expenses was mainly caused by the legal and professional fees incurred during the corresponding period of last year of RMB12.9 million for the preparation of the Company's listing in October 2009, which did not re-occur during the Period. However, part of such decrease was offset by the increase in staff salary and expense in benefits, which was principally a result of (i) an increase in headcount of administrative staff; and (ii) the payments of performance-based bonuses to some management personnel which were based on the profitability of the Group's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") and its subsidiaries.

Other expenses

Other expenses were RMB86,000 and nil for the six months ended 30 June 2009 and the six months ended 30 June 2010 respectively.

Finance costs

Finance costs decreased by 39.3% from RMB4.2 million for the six months ended 30 June 2009 to RMB2.6 million for the six months ended 30 June 2010. The decrease was due to the fact that part of the proceeds from the listing of the Company and cash generated from operations were used to repay the bank borrowings in 2009 and that the borrowing level of the Group was maintained at a low level during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

Income tax expenses were RMB54.8 million for the six months ended 30 June 2010, as compared to RMB14.5 million for the six months ended 30 June 2009. The Company's major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its presence in Western China and was also entitled to a 50% Enterprise Income Tax ("EIT") exemption under EIT holiday of "two-year exemption and three-year half deduction" for 2009, which resulted that the applicable tax rate for Wuzhou Shenguan was 7.5% for that year. The preferential tax period with 50% reduction on the EIT ended by the end of 2009 and therefore, the applicable tax rate of Wuzhou Shenguan was adjusted to 15% for the Period.

The Group's effective tax rates were charged at 8.9% and 19.3% to the profit before tax for the six months ended 30 June 2009 and 2010, respectively. The increase in effective tax rates as compared to the applicable tax rates was due to the withholding tax levied on dividends declared from Wuzhou Shenguan to its holding companies established in Hong Kong.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests decreased by 62.6% from RMB19.2 million for the six months ended 30 June 2009 to RMB7.2 million for the six months ended 30 June 2010. Notwithstanding an increase in profit after tax, the decrease was due to a decrease in percentage of beneficial interests of non-controlling shareholders in Wuzhou Shenguan.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 72.2% from RMB129.1 million for the six months ended 30 June 2009 to RMB222.3 million for the six months ended 30 June 2010. The Group's net profit margin attributable to owners of the Company increased from 40.7% for the six months ended 30 June 2009 to 46.8% for the six months ended 30 June 2010.

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank borrowings

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

As at 30 June 2010, the cash and cash equivalents amounted to RMB964.0 million, representing a decrease of RMB63.9 million from the end of 2009. Among the cash and bank deposits balance, 96.9% were denominated in Renminbi and the remaining 3.1% was denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2010, the total liabilities of the Group amounted to RMB247.0 million (31 December 2009: RMB236.8 million), of which RMB114.9 million was long-term bank borrowings due in the third to fifth years, inclusive. As at 30 June 2010, the Group had no short-term bank borrowings due within one year. All of the Group's bank borrowings were subject to floating interest rates currently ranging from 5.18% to 5.76% per annum and were denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB849.1 million as at 30 June 2010. The debt-to-equity ratio was 6.9% as at 30 June 2010 (31 December 2009: 4.9%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Period, RMB130.0 million was generated from the operating activities, while the amounts spent on investing activities and financing activities were RMB707.1 million and RMB29.6 million, respectively. Net cash outflows from financing activities was mainly related to the distribution of a final dividend for 2009 by the Company and a new bank loan borrowed. Net cash outflows from investing activities were mainly related to the expansion of production facilities, purchase of property, plant and equipment and prepayment in respect of land use rights, as well as an increase in non-pledged time deposits with original maturity of more than three months when acquired. Non-pledged time deposits with original maturity of more than three months when acquired amounted to RMB628.0 million as at 30 June 2010.

Exchange risk exposure

The Group mainly operates in the PRC with most transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations were mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group had not adopted formal hedging policies and no instruments had been applied for foreign currency hedging purposes during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital expenditure

The cash outflow for the capital expenditure used in investing activities during the Period amounted to RMB162.7 million and capital commitments as at 30 June 2010 amounted to RMB397.8 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production lines.

In 2010, the Company has budgeted to spend RMB400 million to RMB500 million for capital expenditure, including mainly the capital expenditure to increase the Group's production capacity to cope with the increasing demand of its products.

Pledge of assets

As at 30 June 2010, none of the Group's assets was pledged.

Use of proceeds

On 13 October 2009, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Net proceeds received by the Company from the initial public offering were approximately RMB1,190.6 million.

As at 30 June 2010, approximately RMB14.1 million of the proceeds were used for the repayment of the outstanding amount due to shareholders, approximately RMB133.3 million of the proceeds were used for the repayment of bank borrowings, and approximately RMB227.4 million of the proceeds were used for the development and expansion of the production facilities in Wuzhou. The proceeds were applied in accordance with the proposed applications set forth in the prospectus of the Company dated 30 September 2009 (the "Prospectus").

The unutilized proceeds have been placed with licensed banks in Hong Kong and the PRC as interest bearing deposits as at 30 June 2010.

Contingent liabilities

As at 30 June 2010 and up to the date of this report, the Group was not aware of any material contingent liabilities.

Acquisitions, Disposals and Significant Investment

As disclosed in the Prospectus, on 15 April 2009, Wuzhou Shenguan entered into an agreement with Wanxiu Government, pursuant to which Wuzhou Shenguan agreed to invest an amount of RMB380 million for the proposed investment, construction and operation of a new production base at Wanxiu Sifuchong, Chengdong Town, Wanxiu District, Wuzhou (梧州市萬秀區城東鎮思扶沖) .

According to the unaudited management accounts of Wuzhou Shenguan, as at 31 December 2009, the total expenses and fees for compensation of the land requisitions and various application and approval procedures, including all taxes arising therefrom (the “Land Compensation and Relevant Applications”) amounted to approximately RMB14,871,000 and the advances from Wuzhou Shenguan to Wanxiu Government for its expenses on the site grading works and construction of the electricity supply facilities and water supply facilities for the new project amounted to approximately RMB16,163,000 (the “Advances”). The Land Compensation and Relevant Applications, and the Advances constituted a discloseable transaction for the Company. For details, please refer to the announcement of the Company dated 1 February 2010.

Saved as disclosed above, during the Period, there was no material acquisition, disposal or investment by the Group.

Human resources

As at 30 June 2010, the Group had 3,082 employees with a total remuneration of RMB41.2 million paid during the Period. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group’s constant expansion, it offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

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

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group remains strongly optimistic towards the prospects and potential of the collagen sausage casings market in the PRC over the second half of 2010. The economic statistics published in the first half of the year showed that the PRC market was developing healthily and rapidly. With the increasing income of urban and rural households in the PRC, the domestic demand for sausage products is anticipated to grow enormously. Being the leading brand of collagen sausage casings in China, the Group is riding on its solid foundation to further consolidate its operational advantages, and is well-positioned to capture more development opportunities presented in the market.

During the second half of 2010, the Group will additionally set up 18 production lines as planned. Together with the increase of 32 production lines during the first half of the year, the number of production lines will be increased to 166 by the end of 2010. In addition in accordance with the development plan of the new collagen processing plant in Wanxiu Sifuchong, Chengdong Town, Wanxiu District, Wuzhou (梧州市萬秀區城東鎮思扶沖), the plant is scheduled to expand its production scale in the second half of the year to cater for the need of production expansion. Meanwhile, by optimizing its production facilities and diversifying the production mix, the Group will continue to enhance its market competitiveness and fulfill the market demand for large diametrical sausage casings.

In the second half of 2010, the Group will, in accordance with its plan, continue to allocate resources to integrate and optimize the effectiveness of internal management, to strengthen the resources managing system, and to further improve the management and operation efficiency in order to achieve economies of scale and strive for better performance, thereby enabling it to bring better returns to the shareholders, staff and customers for their support.

INTERIM DIVIDENDS

The Board resolved the payment of an interim dividend of HK6.0 cents per ordinary share in respect of the Period to shareholders on the register of members of the Company on 17 September 2010. It is expected that the interim dividend will be paid on or around 30 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 15 September 2010 to Friday, 17 September 2010 (both days inclusive) and during such period, no transfer of shares will be registered. To ensure the entitlement to the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on Tuesday, 14 September 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2010, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) are as follows:

1. INTERESTS AND SHORT POSITION IN THE SHARES (THE “SHARES”) OF THE COMPANY

Name of Directors	Capacity/Nature	No. of Shares	Approximate percentage of issued share capital of the Company
Ms. Zhou Yaxian ("Ms. Zhou")	Interest of controlled corporation (Note 2)	1,134,552,000 (L)	68.35
Mr. Low Jee Keong ("Mr. Low")	Interest of controlled corporation (Note 5)	39,468,000 (L)	2.38

2. INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES

Name of Directors	Capacity/Nature	No. of underlying Shares	Approximate percentage of issued share capital of the Company
Ms. Cai Yueqing	Beneficial owner (Note 3)	1,000,000 (L)	0.06
Mr. Shi Guicheng	Beneficial owner (Note 3)	1,000,000 (L)	0.06
Mr. Ru Xiquan	Beneficial owner (Note 3)	1,000,000 (L)	0.06

3. LONG POSITION IN THE ORDINARY SHARES OF ASSOCIATED CORPORATIONS

Name of Directors	Name of the associated corporation	Capacity/Nature	No. of shares held/ amount contributed to registered capital	Approximate percentage of interest in associated corporation
Ms. Zhou	Rich Top Future Limited ("Rich Top Future")	Interest of controlled corporation (Note 2)	65,454	65.45
	Wuzhou Shenguan	Interest of controlled corporation (Note 4)	RMB2,529,000	3.00
Mr. Low	Rich Top Future	Interest of controlled corporation (Note 5)	20,835	20.84

Notes:

1. The letters "L" denote a long position in the Shares.
2. Ms. Zhou holds 100% interest in Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan") and Hong Kong Shenguan holds 100% interest in Glories Site Limited ("Glories Site"), which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng Limited ("Xian Sheng"). Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou is a director of each of Hong Kong Shenguan, Glories Site, Xian Sheng and Rich Top Future.
3. Interests in the options granted on 13 October 2009 under the share option scheme of the Company. For further details, please refer to the section headed "Share Option Scheme" below.
4. Ms. Zhou holds approximately 35.60% interest in Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited (梧州市先盛膠原蛋白技術諮詢服務有限公司), which has contributed RMB2,529,000 to the total registered capital of Wuzhou Shenguan, representing approximately 3% of the total registered capital.
5. Mr. Low holds 100% interest in Wealthy Safe Management Limited ("Wealthy Safe"), which holds 39,468,000 Shares. Therefore, Mr. Low is deemed or taken to be, interested in all the Shares held by Wealthy Safe for the purpose of the SFO. Mr. Low holds 100% interest in Brighten Lane Limited, which holds approximately 20.84% interest in Rich Top Future.

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2010, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES

Name of Directors	Capacity/Nature	No. of underlying Shares	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	1,010,532,000 (L)	60.88
Xian Sheng	Beneficial owner	124,020,000 (L)	7.47
Glories Site	Interest of controlled corporation (<i>Note 2</i>)	1,010,532,000 (L)	60.88
Hong Kong Shenguan	Interest of controlled corporation (<i>Note 3</i>)	1,134,552,000 (L)	68.35
Schroder Investment Management (Hong Kong) Limited	Investment manager	89,528,000 (L)	5.39
Mr. Sha Shuming	Interest of spouse (<i>Note 4</i>)	1,134,552,000 (L)	68.35

Notes:

1. The letters "L" denote a long position in the Shares.
2. Glories Site holds approximately 65.45% interest in Rich Top Future. Therefore, Glories Site is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future for the purpose of the SFO.
3. Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Hong Kong Shenguan is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO.
4. Ms. Zhou holds 100% interest in Hong Kong Shenguan and Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO. Mr. Sha is the spouse of Ms. Zhou and therefore, Mr. Sha is deemed or taken to be, interested in all the Shares in which Ms. Zhou is interested for the purpose of the SFO.

Save as disclosed above, and as at 30 June 2010, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 19 September 2009 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants and advisors or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 13 October 2009 and shall be valid and effective for a period of ten years commencing on 19 September 2009, subject to the early termination provisions contained in the Scheme.

The following table discloses movements in the Company's share options outstanding during the Period:

Name or category of participant	At 1 January 2010	Number of share options lapsed/ forfeited during the Period	Number of share options cancelled during the Period	Number of share options exercised during the Period	At 30 June 2010	Date of grant of share options	Vesting period of share options*	End of exercise period	Share price as at the date of grant of the share options**	
									Exercise price of share options** HK\$ per share	Exercise price of share options*** HK\$ per share
Directors										
Ms. Cai Yueqing	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>					
Mr. Shi Guicheng	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>					
Mr. Ru Xiquan	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	200,000	-	-	-	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>					
	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>					
Other employees										
In aggregate	600,000	-	-	-	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	600,000	-	-	-	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	600,000	-	-	-	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	600,000	-	-	-	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	600,000	-	-	-	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>					
	<u>6,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,000,000</u>					

Notes to the table of share options outstanding during the Period:

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period. Such share options will only become vested upon expiry of the relevant vesting period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The share price of the Company disclosed as at the date of grant of the share options was the closing price as quoted on the Stock Exchange on 13 October 2009, which is the Listing Date.

During the Period, there were no options granted, exercised, cancelled or lapsed under the Scheme.

The Directors have estimated the values of the share options outstanding during the Period, calculated using the binomial option pricing model as at the date of grant of the options, as follows:

Grantee	Number of options outstanding during the Period	Theoretical value of share options HK\$
Ms. Cai Yueqing	1,000,000	1,643,562
Mr. Shi Guicheng	1,000,000	1,643,562
Mr. Ru Xiquan	1,000,000	1,643,562
Other employees	3,000,000	4,829,512
	6,000,000	9,760,198

The binomial option pricing model is a generally accepted method of valuing options. The binomial model involves the construction of a binomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. The significant assumptions used in the calculation of the values of the share options were risk-free interest rate, expected volatility and expected dividend. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES BY DIRECTORS OF THE LISTED ISSUER (“MODEL CODE”)

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as the code of conduct for the securities transactions carried out by the Directors. The Company had made specific enquiry to all Directors and all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, in any time for the Period in due compliance with the code provisions of the Code of Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Listing Rules.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. This is deviated from the code provision A.2.1 of the Code.

Ms. Zhou, who acts as the chairman and 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 Company. 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 enabling 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 officer.

EVENTS AFTER THE PERIOD

On 22 July 2010, the Group (though Wuzhou Shenguan) acquired the 2.60% one-year term certificate treasury bonds issued by the Ministry of Finance of the PRC (the “T-bonds”) in the aggregate principle amount of RMB110,733,200. The T-bonds acquisition constituted a disclosable transaction for the Company. For details, please refer to the announcement of the Company dated 22 July 2010.

AUDIT COMMITTEE

The Company established an audit committee on 19 September 2009 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has three members and comprises three independent non-executive Directors, namely, Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Tsui Yung Kwok has been appointed as the chairman of the audit committee.

The audit committee has reviewed and discussed with the Company's management regarding the Group's unaudited consolidated financial statements for the Period. The audit committee has reviewed this interim report and confirmed that this interim report had complied with all applicable accounting standards and the Listing Rules.

ON BEHALF OF THE BOARD

Zhou Yaxian

Chairman

Hong Kong

30 August 2010

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



To the board of directors of Shenguan Holdings (Group) Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 44, which comprises the condensed consolidated statement of financial position of Shenguan Holdings (Group) Limited as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2010 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre

8 Finance Street, Central

Hong Kong

30 August 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010	2009
		(Unaudited) RMB'000	(Audited) RMB'000
REVENUE	4	475,348	317,198
Cost of sales		(176,596)	(120,774)
Gross profit		298,752	196,424
Other income and gains	4	17,579	3,921
Selling and distribution costs		(4,106)	(5,196)
Administrative expenses		(25,395)	(28,061)
Other expenses		–	(86)
Finance costs	5	(2,557)	(4,211)
PROFIT BEFORE TAX	6	284,273	162,791
Income tax expense	7	(54,833)	(14,544)
PROFIT FOR THE PERIOD		229,440	148,247
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations		(8,376)	31
OTHER COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD, NET OF TAX		(8,376)	31
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		221,064	148,278
Profit attributable to:			
Owners of the Company		222,258	129,035
Non-controlling interests		7,182	19,212
		229,440	148,247

	Note	Six months ended 30 June	
		2010 (Unaudited) RMB'000	2009 (Audited) RMB'000
Total comprehensive income attributable to:			
Owners of the Company		213,882	129,066
Non-controlling interests		7,182	19,212
		221,064	148,278
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY			
	9		
Basic (RMB cents per share)		13.39	N/A
Diluted (RMB cents per share)		13.37	N/A

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	612,598	470,477
Prepaid land lease payments		33,234	31,786
Patent		1,573	2,003
Deferred tax assets		9,329	13,354
Long term prepayments		40,362	43,520
		<hr/>	<hr/>
Total non-current assets		697,096	561,140
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		110,397	46,862
Trade and bills receivables	11	81,142	77,996
Prepayments, deposits and other receivables		65,099	37,765
Tax recoverable		1,168	1,168
Cash and cash equivalents		963,977	1,027,862
		<hr/>	<hr/>
Total current assets		1,221,783	1,191,653
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	12	17,335	24,227
Other payables and accruals		77,007	105,578
Tax payable		12,510	19,808
		<hr/>	<hr/>
Total current liabilities		106,852	149,613
		<hr/>	<hr/>
NET CURRENT ASSETS		1,114,931	1,042,040
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,812,027	1,603,180
		<hr/>	<hr/>

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	114,900	74,900
Deferred income	13,986	11,171
Deferred tax liabilities	11,303	1,091
Total non-current liabilities	140,189	87,162
Net assets	1,671,838	1,516,018
EQUITY		
Equity attributable to owners of the Company		
Issued capital	14,624	14,624
Reserves	1,630,655	1,482,017
	1,645,279	1,496,641
Non-controlling interests	26,559	19,377
Total equity	1,671,838	1,516,018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

Notes	Attributable to owners of the Company											Total equity RMB'000
	Issued capital RMB'000	Share premium account ^a RMB'000	Contributed surplus ^a RMB'000	Reserve funds ^a RMB'000	Capital reserves ^a RMB'000	Employee share-based compensation reserve ^a RMB'000	Exchange fluctuation reserve ^a RMB'000	Other reserve ^a RMB'000	Retained profits ^a RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2010 (Audited)	14,624	1,176,002	59	56,722	4,758	842	(111)	65,334	178,411	1,496,641	19,377	1,516,018
Profit for the period	-	-	-	-	-	-	-	-	222,258	222,258	7,182	229,440
Other comprehensive income, net of tax	-	-	-	-	-	-	(8,376)	-	-	(8,376)	-	(8,376)
Total comprehensive income for the period	-	-	-	-	-	-	(8,376)	-	222,258	213,882	7,182	221,064
Dividends	8	-	-	-	-	-	-	-	(67,000)	(67,000)	-	(67,000)
Equity-settled share option arrangement	-	-	-	-	-	1,756	-	-	-	1,756	-	1,756
At 30 June 2010 (Unaudited)	14,624	1,176,002	59	56,722	4,758	2,598	(8,487)	65,334	333,669	1,645,279	26,559	1,671,838
At 1 January 2009 (Audited)	63,125	-	-	26,281	5,404	-	-	(20,548)	175,818	250,080	40,615	290,695
Profit for the period	-	-	-	-	-	-	-	-	129,035	129,035	19,212	148,247
Other comprehensive income, net of tax	-	-	-	-	-	-	31	-	-	31	-	31
Total comprehensive income for the period	-	-	-	-	-	-	31	-	129,035	129,066	19,212	148,278
Acquisition of non-controlling interests in a subsidiary	10,152	-	-	-	-	-	-	18,391	-	28,543	(28,543)	-
Capitalisation of reserves	9,461	-	-	(8,815)	(646)	-	-	-	-	-	-	-
Dividends to then shareholders of a subsidiary	8	-	-	-	-	-	-	-	(160,889)	(160,889)	(26,136)	(187,025)
Distribution to then shareholders of a subsidiary	-	-	-	-	-	-	-	(81,771)	-	(81,771)	-	(81,771)
Elimination of registered capital in connection with the Reorganisation	(82,738)	-	-	-	-	-	-	82,738	-	-	-	-
At 30 June 2009 (Audited)	-	-	-	17,466	4,758	-	31	(1,190)	143,964	165,029	5,148	170,177

* These reserve accounts comprise the consolidated reserves of RMB1,630,655,000 (31 December 2009: RMB 1,482,017,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited) RMB'000	(Audited) RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	129,927	163,664
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(707,143)	(198,245)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	(29,557)	207,024
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(606,773)	172,443
Cash and cash equivalents at beginning of period	944,355	128,535
Effect of foreign exchange rate changes, net	(1,605)	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	335,977	300,978
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	185,331	292,478
Time deposits with original maturity of three months or less when acquired	150,646	8,500
	335,977	300,978

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the “Company”) was incorporated in the Cayman Islands on 24 February 2009 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 casings products.

Pursuant to a reorganisation of the Group as detailed in the section headed “Corporate Reorganisation” in Appendix VII to the Prospectus of the Company dated 30 September 2009 (the “Reorganisation”) to rationalise the Group’s structure in preparation for the public listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Stock Exchange on 13 October 2009.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The unaudited condensed interim financial information of the Group have been prepared as if the current group structure had been in existence throughout the period ended 30 June 2009 or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

2. BASIS OF PREPARATION AND ACCOUNTANT 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 unaudited condensed interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2009.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

2. BASIS OF PREPARATION AND ACCOUNTANT POLICIES (Continued)

The accounting policies and method of computation adopted in the preparation of this unaudited condensed interim financial information are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009 and 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 that the Group has in the current period applied, for the first time, the following new and revised HKFRSs:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash – settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

Apart from the above, the Group has also adopted *Improvements to HKFRSs 2009** issued by the HKICPA which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

* *Improvements to HKFRSs 2009* contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

2. BASIS OF PREPARATION AND ACCOUNTANT POLICIES (Continued)

The adoption of these new interpretations and amendments 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 this unaudited condensed interim financial information, except for the following revised standards which the Group applies from 1 January 2010 prospectively:

(a) HKFRS 3 (Revised) *Business Combinations*

HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

(b) HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

3. OPERATING SEGMENT INFORMATION

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Revenue		
Sale of goods	475,348	317,198
Other income and gains		
Bank interest income	6,415	1,052
Sales of dried meat products	521	703
Gain on disposal of equity investments at fair value through profit or loss	–	224
Foreign exchange gains, net	5,817	–
Reversal of impairment of trade receivables	2,134	–
Government grants	2,496	1,776
Others	196	166
	17,579	3,921

5. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	2,557	6,521
Less: Government grants	–	(2,310)
	2,557	4,211

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Depreciation:		
Property, plant and equipment	15,159	8,465
Investment property	–	2
	<u>15,159</u>	<u>8,467</u>
Amortisation of patent	429	429
Amortisation of prepaid land lease payments	373	580

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong. The provision for People's Republic of China ("PRC") income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Current tax charge for the period – Mainland China	40,596	15,192
Deferred tax	14,237	(648)
	<u>54,833</u>	<u>14,544</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

8. DIVIDENDS

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Dividends declared and paid by the Company's subsidiaries to their then shareholders	–	187,025
Final dividends declared and paid – HK4.6 cents per ordinary shares (six months ended 30 June 2009: Nil)	67,000	–
	67,000	187,025

Subsequent to the reporting period, the directors recommend the payment of an interim dividend of HK6.0 cents per ordinary share.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2010 is based on the profit for the period attributable to ordinary owners of the Company of RMB222,258,000, and the weighted average number of ordinary shares of 1,660,000,000 in issue during the period ended 30 June 2010.

The calculation of diluted earnings per share amount for the period ended 30 June 2010 is based on the profit for the period attributable to ordinary owners of the Company of RMB222,258,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period ended 30 June 2010, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 2,217,066 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Earnings per share information for the period ended 30 June 2009 was not presented for the purpose of this unaudited condensed interim financial information, as it is not considered meaningful due to the Reorganisation as disclosed in note 1 above.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group incurred RMB157,293,000 (six months ended 30 June 2009: RMB101,102,000) on the acquisition of items of property, plant and equipment and disposed of items of property, plant and equipment with an aggregate net book value of RMB13,000 (six months ended 30 June 2009: RMB8,000).

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

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 3 months	77,840	75,745
3 to 4 months	2,324	490
Over 4 months	978	1,761
	81,142	77,996

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

12. TRADE PAYABLES

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

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 1 month	5,389	18,687
1 to 2 months	7,944	2,217
2 to 3 months	939	897
Over 3 months	3,063	2,426
	17,335	24,227

13. COMMITMENTS

The Group had the following capital commitments in respect of the purchase of property, plant and equipment at the end of the reporting period:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	50,536	33,972
Plant and machinery	41,351	52,031
Authorised, but not contracted for:		
Production facilities	305,885	356,928
	397,772	442,931

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

14. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2009: Nil).

15. PLEDGE OF ASSETS

At the end of the reporting period, the Group had no pledge of assets (31 December 2009: Nil).

16. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period.

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Audited)
		RMB'000	RMB'000
Notes			
	Then shareholders of a subsidiary:		
	Sales of products (i)	277	1,057
	Commission paid (ii)	269	275
	Company controlled by a director of the Company:		
	Sales of products (i)	3,518	781
	Companies controlled by spouse of a director of the Company:		
	Sales of materials (iii)	267	243
	Purchases of materials (iii)	–	355
	Rental of boiler (iii)	–	20
	Purchases of packing materials (iii)	9,606	5,184

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

16. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

- (i) The sales were made according to the prices and conditions offered to major customers of the Group.
- (ii) The commission was calculated based on 2.3% of the transaction value on the sales of products to those overseas customers arranged by the related company (six months ended 30 June 2009: 1.9% – 2.3%).
- (iii) These transactions were conducted at rates mutually agreed between the parties.

(b) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2010 (Unaudited) RMB'000	2009 (Audited) RMB'000
Salaries, allowances and benefits in kind	1,606	361
Performance related bonuses	4,050	4,247
Retirement benefit contributions	20	11
Equity-settled share option expense	1,468	–
Total compensation paid to key management personnel	7,144	4,619

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2010

17. EVENT AFTER THE REPORTING PERIOD

On 22 July 2010, the Group acquired one-year term non-transferable PRC Certificate Treasury Bonds issued by The Ministry of Finance of the PRC in the aggregate principal amount of RMB110,733,000. The treasury bonds will mature on 22 July 2011 and bear interest at 2.6% per annum.

18. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of director on 30 August 2010.