



Shenguan Holdings (Group) Limited

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

2012 INTERIM REPORT



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Zhou Yaxian (*Chairman and President*)
Ms. Cai Yueqing
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi (appointed on 16 May 2012)

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 ADVISOR 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
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

INFORMATION FOR INVESTORS

LISTING INFORMATION

Listing: The Stock Exchange of
Hong Kong Limited
Stock code: 00829
Ticker Symbol
Reuters: 0829.HK
Bloomberg: 829: HK Equity

INDEX CONSTITUENT

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

KEY DATES

13 October 2009
Listed on Hong Kong Stock Exchange

20 August 2012
Announcement of 2012 Interim Results

7 September 2012 to 12 September 2012
(both days inclusive)
Closure of Register of Members

On or around 25 September 2012
Payment of Interim Dividend

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 2012
3,324,120,000 shares

Market capitalization as at 30 June 2012
HK\$14,725,852,000

Basic earnings per share for 2012
Half year RMB9.41 cents

Dividend per share for 2012
Half year HK5.5 cents

ENQUIRIES CONTACT

Mr. Ng Yuk Yeung
Financial Controller

Telephone: (852) 2893 5802
Fax: (852) 2891 5998
E-mail: ngyy@shenguan.com.cn

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

WEBSITE

www.shenguan.com.cn

KEY FINANCIAL HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS

	2012	2011	change
	For the six months ended 30 June		
Revenue (RMB million)	692.3	604.2	+14.6%
Profit Attributable to Owners of the Company (RMB million)	312.7	305.2	+2.5%
Profit Attributable to Owners of the Company excluding foreign exchange differences (RMB million)	314.7	288.6	+9.0%
Basic Earnings Per Share (RMB cents)	9.41	9.19	+2.4%
Dividend Per Share (HK cents)			
– Interim	4.5	4.3	+4.7%
– Special	1.0	–	N/A
Cash Inflow from Operation (RMB million)	280.7	178.1	+57.6%

	1H 2012	FY 2011	1H 2011
Total Assets (RMB million)	2,549.3	2,192.4	2,244.1
Inventory Turnover Day			
– Raw Materials (days)	45.1	41.3	50.7
Inventory Turnover Day			
– FG & WIP (days)	94.0	54.9	81.4
Trade Receivables Turnover Day (days)	37.9	36.9	54.8
Trade Payables Turnover Day (days)	80.1	56.3	70.7

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

China's economy continued to slow down as the worsening European sovereign debt crisis and stalling economic recovery in the United States have severely hit the export sector and international trade. Domestic consumption was stably growing and became the major driver of Chinese economic growth, which was 7.8% growth in the first half of 2012, slightly higher than the full year target of 7.5%. The per capita disposable income of urban residents and the per capita net income of rural residents rose year-on-year by 9.7% and 12.4% respectively to RMB12,509 and RMB4,303. The sustained economic growth and accelerating urbanization were the major factors boosting the purchasing power of consumers.

China's food industry development in the first half of 2012 was characterized by incidents relating to food safety, sending ripples through the meat industry. In particular, the gelatine incident came to light in April this year also temporarily had indirect impact on the sales of collagen products in the second quarter of the year. As a result, consumers paid more attention in choosing safe food products and food manufacturers placed more emphasis on seeking reliable suppliers. However, the meat products market remained strong as rising income and improving living standard continued to fuel the demand. The policies laid out in the Twelfth Five Year Plan targeting to improve the overall food industry also support the meat product sector, benefiting processed meat products in the future. This drives the rapid expansion of the market of sausage casing products. The lower market penetration rate of collagen sausage casing products in China as compared to developed countries also implies huge market potential.

In view of the rising market demand in China, the Group continued to invest in new production capacity, bringing to the market additional supply of collagen sausage casing products, which in turn drove the growth of the Group's income, underpinning the stability of its profitability.

Revenue of the Group increased by 14.6% to RMB692.3 million for the six months ended 30 June 2012 (the "Period"), from RMB604.2 million for the same period last year. The gelatine incident in the PRC has aroused public concerns regarding the safety of collagen products, which also indirectly affected the sales of the Group's collagen casings in May and June 2012. For this issue, the Group's examination center had served a positive function. The group had invested over RMB30 million in the past to build this examination center, which was equipped with the most sophisticated examination instruments among the food production industry in Guangxi. This examination center had strictly executed the inward raw materials examination and the outward finished goods examination in the production procedure. In addition, the Group's production has also strictly complied

with the European Union standards, PRC national standards, sausage casing industry standards and corporate standards. As a result, sales growth gradually picked up in July 2012 after the Group confirmed that its products had passed all the relevant tests and quality checks. Profit attributable to owners of the Company rose by 2.5% to RMB312.7 million for the Period from RMB305.2 million in the same period in 2011. Profit attributable to owners of the Company excluding foreign exchange differences rose by 9.0% to RMB314.7 million for the Period from RMB288.6 million in the same period in 2011. Basic earnings per share of the Group were RMB9.41 cents for the Period.

The Board resolved the payment of an interim dividend of HK4.5 cents per share (1H2011: HK4.3 cents) and a special dividend of HK1.0 cent per share (1H2011: Nil).

PRODUCT MIX

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings during the Period, most of which are used for western-style sausages. The rising demand for sausages, in particular, low temperature sausages, and the diversification of ingredients used in sausage products in the PRC market were key drivers of the market in the first half of 2012.

The Group's efforts in diversifying its product portfolio began to pay off as its Muslim sausage casing products obtained the licenses for selling locally within the PRC in 2011 and also in the overseas market in the first half of 2012. This product is currently available mainly in the PRC market. It is expected that sales revenue of Muslim sausage casings will gradually become one of our major revenue contributors in the long run.

During the Period, the Group offered different sizes of collagen sausage casing products, with diameters ranging from 13mm to 50mm. By sales revenue, over 93.6% of the products were sold to the sausage manufacturers in the PRC, our major market, with the remaining 6.4% exported to South America, Southeast Asia, the United States and Europe.

SUPPLY OF RAW MATERIALS

The core raw material for collagen sausage casing production is cattle's inner skin. The supply of cattle inner skin has remained stable in the past few years.

With the good relationship established between the Group and the suppliers over the years, the Group expects to secure a stable supply of cattle's inner skins in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

COST CONTROL

The Group is committed to cost control and has continued to enhance efficiency of existing production lines and optimize its energy-saving facilities. Such efforts enable the Group to partially offset the impact of energy and labor cost inflation seen in the first half of 2012 and the increase in factory overhead expenses for the same period. The Group leveraged on its research and development (R&D) ability to enrich its product portfolio and maintain its profitability. The Group also strengthened its centralized procurement management to reduce procurement costs and benefit from economies of scales. The Group's gross profit margin decreased slightly from 63.8% for the first half of 2011 to 60.1% for the Period.

PRODUCTION CAPACITY

During the first half of 2012, the Group continued to expand production capacity to satisfy the growing demand for collagen sausage casing products.

In June 2012, the Group's Guangxi Wangfu production base was completed. The completion of this production base not only increased the production capacity but also greatly enhanced efficiency. As at 30 June 2012, the Group owned three production plants in Wuzhou of Guangxi Province.

To serve the rapidly growing production volume, the Group also invested to increase its collagen processing plant capacity. During the Period, the Group continued to move its collagen extraction facilities in Sifu production base into the new collagen processing plant from the old Fudian production base. The relocation further strengthened the Group's collagen extraction efficiency and improved the quality of the extracted collagen. In addition, the Group enhanced production lines in the old Fudian production base and added new automatic facilities to improve production efficiency.

TECHNOLOGICAL RESEARCH AND DEVELOPMENT

The Group considers its commitment to innovative technologies and new products as one of its core competitive strengths. The Group is involved in the preliminary stages of the R&D process for new sausage products and produces tailor-made products according to specific customer preferences. The Group believes that such strong R&D commitment and capability are the core of its success.

As at 30 June 2012, the Group had registered 2 trademarks and 25 patents in the PRC, with another 8 patents being accepted for application and their approval is pending. These patented technologies enables the Group to differentiate from its peers and are the key to raise the entry barriers for competitors to enter the market. The Group will continue to optimize its production technology in order to reduce production costs. During the Period, the R&D expenses amounted to RMB44.7 million (1H2011: RMB102.6 million).

QUALITY CONTROL

Quality control is the core competitive strength of the Group. This is particularly important with rising consumer concerns over food safety. The Group undertakes strict quality control over every single production process and ensures its products are at their optimal quality and all the safety requirements are satisfied before they are delivered to customers.

The Group has passed the Assessment of ISO9001: 2008 Quality Management System and ISO22000:2005 Food Safety Management System, and has obtained the QS Food Production License and the Food and Drug Administration (FDA) registration for the export of products to the United States. In addition, the production of all of its products have strictly complied with the European Union standards (Regulation (EC) No. 853/2004), PRC national standards (GB14967-94), industry standards (SB/T10373-2004) and corporate standards (Q/WZSG0001S-2012), which has already been put on record. All these recognitions enable the Group to become a trustworthy product supplier for its customers.

The examination center for the assessment of raw materials and finished goods continued to operate efficiently to ensure product safety and quality. The Group also installed new and advanced inspection and testing facilities, and expanded the technology and examination centers at the same time. Currently, the examination centre can detect, including but not limited to, toxic materials such as pesticide residues, drug residues and heavy metals, etc.

CUSTOMER RELATIONSHIP

The Group is committed to developing long-term relationship with its business partners. Over the years, the Group has established a closely-knit network of leading manufacturers of processed meat products and sausages, not only in the PRC, but also in various oversea markets such as South America, Southeast Asia, the United States and Europe. During the Period, the Group received orders from various overseas markets, among which orders from customers of Southeast Asia increased by 15% as compared to the same period in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

ENERGY SAVING

The Group adopted and optimized the heat energy technology and the energy use was greatly reduced. Technological innovation has been the Group's key drive of motivation in its course of development. The Group achieved ground-breaking development in energy saving technology and was listed among 2012 Guangxi RMB100 Billion Key Projects in Technological Industry (廣西2012年千億元產業重大科技攻關項目). The Group achieved a satisfactory result by replacing steam boilers with the heat energy technology in the drying process of all production lines. Riding on this initial success, the Group continued to further improve its heat energy technology, resulting in greater energy-saving. Energy consumption efficiency continued to improve and partially offset the rising energy and labor costs of the Group.

FINANCIAL ANALYSIS

Revenue

The Group's revenue increased by 14.6% from RMB604.2 million for the six months ended 30 June 2011 to RMB692.3 million for the Period, driven by the significant growth in the sales of western-style collagen sausage casings.

The increase in sales of products was principally a result of (i) the 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 in market demand.

Cost of sales

Cost of sales increased by 26.5% from RMB218.5 million for the six months ended 30 June 2011 to RMB276.5 million for the Period. The increase was driven by the following factors: (i) the cost of raw materials increased by RMB35.1 million due to increased production volume; (ii) water, electricity and coal expenses increased by RMB14.1 million; and (iii) the direct labor expenses increased by RMB8.1 million as the Group hired more workers and annually reviewed their remuneration to support its operations.

Gross profit

Gross profit increased by 7.8% from RMB385.6 million for the six months ended 30 June 2011 to RMB415.7 million for the Period. The Group's dedicated efforts in enhancing the efficiency of existing production lines to cater for rising market demand, optimizing its energy saving facilities for cost-saving and leveraging on its R&D expertise to enrich product portfolio and maintain profitability, the gross profit margin of the Group decreased from 63.8% for the same period in last year to 60.1% for the Period.

Other income and gains

Other income and gains decreased by 44.5% from RMB32.8 million for the six months ended 30 June 2011 to RMB18.2 million for the Period. For the six months ended 30 June 2011, the Group recorded a foreign exchange gains of RMB17.2 million resulted from the appreciation of Renminbi. During the Period, the Group recorded a foreign exchange loss of RMB2.0 million in administrative expenses.

Selling and distribution costs

Selling and distribution expenses increased by 4.1% from RMB7.4 million for the six months ended 30 June 2011 to RMB7.7 million for the Period. Selling and distribution expenses accounted for 1.2% of the revenue for the six months ended 30 June 2011 and 1.1% of the revenue for the Period.

Administrative expenses

Administrative expenses increased by 28.7% from RMB28.6 million for the six months ended 30 June 2011 to RMB36.8 million for the Period. The increase in administrative expenses was mainly caused by the increase in City Construction Tax, Education Surcharge and Local Education Surcharge in the PRC and the increase in staff salary and expense in staff benefit during the Period.

Finance costs

Finance costs decreased from a credit of RMB0.5 million for the six months ended 30 June 2011 to a credit of RMB2.4 million for the Period. The decrease was due to the grant of a government subsidy of RMB3.0 million and an interest capitalisation of RMB1.1 million which offset the interest on bank loans of RMB1.7 million.

Income tax expenses

Income tax expenses were RMB67.9 million for the six months ended 30 June 2011, as compared to RMB79.2 million for the Period. The Company's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan"), enjoyed a preferential tax treatment because of its geographical presence in Western China, which resulted that the applicable tax rate for Wuzhou Shenguan was 15%.

The Group's effective tax rates were charged at 17.7% and 20.2% to the profit before tax for the six months ended 30 June 2011 and 2012, respectively. The difference between the effective tax rates and the applicable tax rates was due to the withholding tax levied on dividends declared from Wuzhou Shenguan to its holding companies incorporated in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests was decreased from RMB9.8 million for the six months ended 30 June 2011 to nil for the Period. Despite the increase in profit after tax, the Group acquired 3% non-controlling interest in Wuzhou Shenguan. As a result, there was no profit attributable to non-controlling interests during the Period.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 2.5% from RMB305.2 million for the six months ended 30 June 2011 to RMB312.7 million for the Period. Profit attributable to owners of the Company excluding foreign exchange differences rose by 9.0% to RMB314.7 million for the Period from RMB288.6 million in the same period in 2011.

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 2012, the cash and cash equivalents amounted to RMB823.1 million, representing an increase of RMB335.3 million from the end of 2011. Among the cash and bank deposits balance, 98.2% was denominated in Renminbi and the remaining 1.8% was denominated in Hong Kong dollars and U.S. dollars.

As at 30 June 2012, the total liabilities of the Group amounted to RMB488.8 million (31 December 2011: RMB286.9 million), of which RMB65.0 million was long-term bank borrowings due over one year. As at 30 June 2012, the Group had short-term bank borrowings of RMB164.4 million due within one year. All of the Group's bank borrowings were subject to interest rates currently ranging from 3.75% to 7.59% per annum and were denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB593.6 million as at 30 June 2012 together with held-to-maturity investments of RMB51.4 million. The debt-to-equity ratio was 11.1% as at 30 June 2012 (31 December 2011: 3.3%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Period, RMB280.7 million, RMB39.2 million and RMB7.1 million were respectively generated from the operating activities, investing activities and financing activities of the Group. Net cash inflow from financing activities was mainly related to the combined effects of distribution of a final dividend for 2011 by the Company and the additions of bank loans. Net cash inflows from investing activities were mainly related to a decrease in held-to-maturity investments, which was partly offset by the expansion of production facilities, purchase of property, plant and equipment, as well as an increase in non-pledged time deposits with original maturity of more than three months when acquired.

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.

Capital expenditure

The cash outflow for the capital expenditure used in investing activities during the Period amounted to RMB150.6 million and capital commitments as at 30 June 2012 amounted to RMB255.3 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production lines.

In 2012, the Company has budgeted to spend around RMB300 million to RMB400 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 and upgrading of production technology.

Pledge of assets

As at 30 June 2012, the Group's short term bank borrowings of RMB164.4 million were secured by cash in bank of RMB164.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisitions, disposals and significant investment

During the Period, there was no material acquisition, disposal or investment by the Group.

Contingent liabilities

As at 30 June 2012 and up to the date of this report, the Group was not aware of any material contingent liabilities.

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 2012, approximately RMB14.1 million of the proceeds was used for the repayment of the outstanding amount due to shareholders, approximately RMB133.3 million of the proceeds was used for the repayment of bank borrowings, and approximately RMB653.2 million of the proceeds was 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 unutilized proceeds had been placed with licensed banks in Hong Kong and Mainland China as interest-bearing deposits as at 30 June 2012.

Human resources

As at 30 June 2012, the Group had approximately 4,000 employees with a total remuneration of RMB69.0 million during the Period. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group’s constant expansion, the Group offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

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

SHARE OPTION SCHEME

The following table discloses movements in the Company's share options granted under the share option scheme of the Company (the "Scheme") during the Period:

Name or category of participant	Number of share options [†]					Date of grant of share options	Vesting period of share options [*]	End of exercise period	Adjusted exercise price of share options ^{**}	Adjusted share price as at the date of grant of the share options ^{***}
	At 1 January 2012	Granted during the Period	Cancelled/ lapsed during the Period	Exercised during the Period [†]	At 30 June 2012				HK\$	HK\$
Directors										
Ms. Cai Yueqing	400,000	-	-	(400,000)	-	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,600,000	-	-	(400,000)	1,200,000					
Mr Shi Guicheng	400,000	-	-	(400,000)	-	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,600,000	-	-	(400,000)	1,200,000					
Mr. Ru Xiquan	400,000	-	-	(400,000)	-	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,600,000	-	-	(400,000)	1,200,000					
Mr. Mo Yunxi	400,000	-	-	(400,000)	-	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	-	-	-	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,600,000	-	-	(400,000)	1,200,000					
	6,400,000	-	-	(1,600,000)	4,800,000					
Other employees										
In aggregate	280,000	-	-	-	280,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	2.165	2.165
	800,000	-	-	(400,000)	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	800,000	-	-	-	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	800,000	-	-	-	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	800,000	-	-	-	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	3,480,000	-	-	(400,000)	3,080,000					
	9,880,000	-	-	(2,000,000)	7,880,000					

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- # all the options were exercised on 1 June 2012. The closing price of the shares immediately before the date of exercise of the options i.e. 31 May 2012 was HK\$4.37.
- * 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 price shown above have been adjusted to reflect the bonus issue during 2011.
- *** The adjusted 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 of the Company and adjusted to reflect the bonus issue during 2011.

PROSPECTS

Looking ahead, the Group remains optimistic towards the vast potential of the collagen sausage casing market in the PRC. Rising income and improving standard of living will continue to boost demand for processed meat products, despite the challenging market conditions and slowing Chinese economy. The safety issue in the gelatine industry had come to light, which brought consumers to question about the safety of food products. For this issue, the Group's examination center had served a positive function. The group had invested over RMB30 million in the past to build this examination center, which was equipped with the most sophisticated examination instruments among the food production industry in Guangxi. This examination center had strictly executed the inward raw materials examination and the outward finished goods examination in the production procedure. In addition, the Group's production also strictly complied with the European Union standards, PRC national standards, industry standards and corporate standards. As a result, the demand for collagen sausage products of the Group started to return in the second half of 2012 after the Group proactively sought confirmation of product safety of its products. Sales growth of our products gradually returned to normal in July 2012 and is expected to continue in the rest of the second half of the year.

The new production lines added by the Group during the Period had commenced operation in June 2012 and started to contribute to the overall growth of the Group. The Group also plans to add more production lines by the end of 2012 to cope with market demand. This will enable the Group to achieve the target of maintaining a capacity expansion rate of over 20% for the whole of 2012.

The Group will continue to place emphasis on product quality and safety, from raw materials to finished products, to ensure highest quality of our collagen sausage casings. The Group shall achieve this by continual upgrade of its standards and benchmarks in key control points of its production process so that stringent production controls are in place.

The Group will continue to diversify its product mix, speed up product development, improve and perfect workmanship in the production process so as to meet market demand. The Group will also strengthen the innovation capabilities of its technology center and examination center and increase protection of intellectual property.

At the same time, the Group will continue its efforts in increasing sales of its new product – Muslim casing products. We believe with the Muslim casings eventually launched in the overseas markets, the contribution to the Group will be gradually reflected. Sales revenue of Muslim sausage casings is expected to become one of the key growth drivers of the Group's business in the long run.

We believe with our commitment to delivering innovative, safe and reliable products to our customers and leveraging on our core strengths in manufacturing quality collagen sausage casing products, Shenguan will be able to grow its market share and enhance its leading position to maximize returns to its shareholders.

OTHER INFORMATION

Interim dividend

The Board resolved the payment of an interim dividend of HK4.5 cents per ordinary share in respect of the Period and a special dividend of HK1.0 cent per ordinary share to shareholders on the register of members of the Company on 12 September 2012. It is expected that the interim dividend and the special dividend will be paid on or around 25 September 2012.

Closure of register of members

The register of members of the Company will be closed from Friday, 7 September 2012 to Wednesday, 12 September 2012 (both days inclusive) and during such period, no transfer of shares will be registered. To ensure the entitlement to the interim dividend and the special 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 p.m. on Thursday, 6 September 2012.

Appointment of executive director

At the annual general meeting held on 16 May 2012 (the “AGM”), the election of Mr. Mo Yunxi as an executive Director was duly approved by the Shareholders and such appointment took effect immediately thereafter. Mr. Mo has entered into a director’s service agreement with the Company as an executive Director for a term of three years commencing on the date of the AGM which approves his appointment and ending at the conclusion of the 2014 annual general meeting of the Company to be held in 2015.

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 2012, 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 are required to notify 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)	2,142,166,000 (L)	64.44
Mr. Low Jee Keong (“Mr. Low”)	Interest of controlled corporation (Note 4)	78,936,000 (L)	2.37
Ms. Cai Yueqing	Beneficial owner	800,000 (L)	0.02
Mr. Shi Guicheng	Beneficial owner	800,000 (L)	0.02
Mr. Ru Xiquan	Beneficial owner	800,000 (L)	0.02
Mr. Mo Yunxi	Beneficial owner	800,000 (L)	0.02

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)	1,200,000 (L)	0.04
Mr. Shi Guicheng	Beneficial owner (Note 3)	1,200,000 (L)	0.04
Mr. Ru Xiquan	Beneficial owner (Note 3)	1,200,000 (L)	0.04
Mr. Mo Yunxi	Beneficial owner (Note 3)	1,200,000 (L)	0.04

3. Long Position in the Ordinary Shares of Associated Corporations

Name of Directors	Name of the associated corporation	Capacity/Nature	No. of shares held	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
Mr. Low	Rich Top Future	Interest of controlled corporation (Note 4)	20,835	20.84

Notes:

1. The letters “L” denote a long position in the Shares or underlying Shares.
2. Ms. Zhou holds 100% interest in Shenguan Biology Science & Technology Investment Company Limited (“Hong Kong Shenguan”) and Hong Kong Shenguan beneficially holds 3,700,000 Shares and 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 Hong Kong Shenguan, 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 share options granted on 13 October 2009 under the Scheme which have been adjusted pursuant to the Bonus Issue. For details, please refer to the announcement of the Company dated 15 June 2011.
4. Mr. Low holds 100% interest in Wealthy Safe Management Limited (“Wealthy Safe”), which holds 78,936,000 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 2012, 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 2012, 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 Shareholders	Capacity/Nature	No. of Shares	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	1,890,426,000 (L)	56.87
Xian Sheng	Beneficial owner	248,040,000 (L)	7.46
Glories Site	Interest of controlled corporation (Note 2)	1,890,426,000 (L)	56.87
Hong Kong Shenguan	Beneficial owner/ Interest of controlled corporation (Note 3)	2,142,166,000 (L)	64.44
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse (Note 4)	2,142,166,000 (L)	64.44

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 beneficially holds 3,700,000 Shares and 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. Hong Kong Shenguan beneficially holds 3,700,000 Shares and 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 Hong Kong Shenguan, 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 2012, 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.

Compliance with the 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 of Hong Kong Limited (the “Listing Rules”) as the code of conduct for 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, the Company had complied with all the code provisions as set out in the Code on Corporate Governance (the “Code”) contained in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012. The Code had been amended which took effect from 1 April 2012 (the “Revised Code”). Save as disclosed below, the Company had complied with all the code provisions as set out in the Revised Code during the period from 1 April 2012 to 30 June 2012.

Under code provision A.2.1 of the Code or the Revised Code, the roles of chairman and chief executive officer (as required under the Code) or the chief executive (as required under the Revised Code) 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” or “chief executive”. This deviates from the code provision A.2.1 of the Code or the Revised Code.

Ms. Zhou Yaxian, who acts as the chairman and the president of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 of the Code and will continue to consider the feasibility of appointing a separate chief executive.

Under code provision A.6.7 of the Revised Code, the independent non-executive Directors and the non-executive Director should attend the general meetings of the Company. However, due to other commitments, an independent non-executive Director, Mr. Yang Xiaohu did not attend the annual general meeting of the Company held on 20 August 2012.

All the Directors have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation and majority of the independent non-executive Directors, Mr. Tsui Yung Kwok and Mr. Meng Qinguo have attended the said annual general meeting.

Audit committee

The audit committee of the Company has reviewed the interim report and the condensed consolidated interim results of the Company for the Period and considered that the interim report and 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, 20 August 2012

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 26 to 42, which comprises the condensed consolidated statement of financial position of Shenguan Holdings (Group) Limited as at 30 June 2012 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.

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

(Incorporated in the Cayman Islands with limited liability)

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 2012 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

22nd Floor, CITIC Tower

1 Tim Mei Avenue, Central

Hong Kong

20 August 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
REVENUE	4	692,252	604,168
Cost of sales		(276,534)	(218,527)
Gross profit		415,718	385,641
Other income and gains	4	18,175	32,819
Selling and distribution costs		(7,711)	(7,445)
Administrative expenses		(36,785)	(28,610)
Finance costs	5	2,444	487
PROFIT BEFORE TAX	6	391,841	382,892
Income tax expense	7	(79,158)	(67,942)
PROFIT FOR THE PERIOD		312,683	314,950
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations		47	(16,322)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		47	(16,322)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		312,730	298,628
Profit attributable to:			
Owners of the Company		312,683	305,155
Non-controlling interests		–	9,795
		312,683	314,950

		Six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
Note		RMB'000	RMB'000
	Total comprehensive income attributable to:		
	Owners of the Company	312,730	288,833
	Non-controlling interests	–	9,795
		312,730	298,628
	EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
	Basic (RMB cents per share)	9.41	9.19
	Diluted (RMB cents per share)	9.40	9.17

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,080,543	922,526
Prepaid land lease payments		104,634	105,646
Patent		–	285
Available-for-sale investment		200	200
Held-to-maturity investment		51,411	50,403
Deferred tax assets		10,465	14,074
Long term prepayments		45,728	10,136
		<u>1,292,981</u>	<u>1,103,270</u>
Total non-current assets		1,292,981	1,103,270
CURRENT ASSETS			
Inventories		239,253	182,342
Trade and bills receivables	11	121,248	166,226
Prepayments, deposits and other receivables		72,763	48,439
Principal-protected investments		–	50,000
Held-to-maturity investments		–	154,329
Cash and cash equivalents		823,067	487,789
		<u>1,256,331</u>	<u>1,089,125</u>
Total current assets		1,256,331	1,089,125
CURRENT LIABILITIES			
Trade and bills payables	12	45,003	52,434
Other payables and accruals		172,498	123,740
Interest-bearing bank borrowings	16	164,440	42,971
Tax payable		3,749	18,196
		<u>385,690</u>	<u>237,341</u>
Total current liabilities		385,690	237,341
NET CURRENT ASSETS		<u>870,641</u>	<u>851,784</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,163,622</u>	<u>1,955,054</u>

		30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
	Note		
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		65,000	20,000
Deferred income		37,060	28,952
Deferred tax liabilities		1,080	630
		<hr/>	<hr/>
Total non-current liabilities		103,140	49,582
		<hr/>	<hr/>
Net assets		2,060,482	1,905,472
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	28,584	28,568
Reserves		2,031,898	1,876,904
		<hr/>	<hr/>
Total equity		2,060,482	1,905,472
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company												
	Notes	Share			Reserve funds*	Capital reserves*	Employee share-based compensation reserve*	Exchange fluctuation reserve*	Other reserve*	Retained profits*	Total	Non-controlling interests	Total equity
		Issued capital	premium account*	Contributed surplus*									
At 1 January 2012 (Audited)		26,568	1,167,543	59	187,996	4,758	4,743	(62,036)	(264,343)	638,184	1,905,472	-	1,905,472
Profit for the period		-	-	-	-	-	-	-	-	312,683	312,683	-	312,683
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations		-	-	-	-	-	-	47	-	-	47	-	47
Total comprehensive income for the period		-	-	-	-	-	-	47	-	312,683	312,730	-	312,730
Final 2011 dividend	8	-	-	-	-	-	-	-	-	(161,973)	(161,973)	-	(161,973)
Issue of shares in connection with the exercise of share options	13	16	4,977	-	-	-	(1,313)	-	-	-	3,680	-	3,680
Equity-settled share option arrangement		-	-	-	-	-	573	-	-	-	573	-	573
At 30 June 2012 (Unaudited)		26,584	1,172,520	59	187,996	4,758	4,003	(61,989)	(264,343)	988,894	2,060,482	-	2,060,482
At 1 January 2011 (Audited)		14,633	1,181,478	59	112,842	4,758	2,835	(26,873)	65,334	482,613	1,837,679	26,921	1,864,600
Profit for the period		-	-	-	-	-	-	-	-	305,155	305,155	9,795	314,950
Other comprehensive loss for the period:													
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(16,322)	-	-	(16,322)	-	(16,322)
Total comprehensive income for the period		-	-	-	-	-	-	(16,322)	-	305,155	288,833	9,795	298,628
Bonus issue	13	13,935	(13,935)	-	-	-	-	-	-	-	-	-	-
Final 2010 dividend	8	-	-	-	-	-	-	-	-	(113,079)	(113,079)	-	(113,079)
Special 2010 dividend	8	-	-	-	-	-	-	-	-	(27,955)	(27,955)	-	(27,955)
Equity-settled share option arrangement		-	-	-	-	-	964	-	-	-	964	-	964
At 30 June 2011 (Unaudited)		26,568	1,167,543	59	112,842	4,758	3,799	(43,195)	65,334	646,734	1,986,442	36,716	2,023,158

* These reserve accounts comprise the consolidated reserves of RMB2,031,898,000 (31 December 2011: RMB1,876,904,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	280,690	178,058
NET CASH FLOWS FROM INVESTING ACTIVITIES	39,176	166,832
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	7,056	(260,152)
NET INCREASE IN CASH AND CASH EQUIVALENTS	326,922	84,738
Cash and cash equivalents at beginning of period	437,528	252,279
Effect of foreign exchange rate changes, net	(1,848)	1,092
CASH AND CASH EQUIVALENTS AT END OF PERIOD	762,602	338,109
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	710,870	331,539
Non-pledged time deposits with original maturity of three months or less when acquired	51,732	6,570
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	762,602	338,109
Non-pledged time deposits with original maturity of over three months when acquired	60,465	120,523
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	823,067	458,632

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2012

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 casing products.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial information of the Group has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited condensed interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2011.

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 2011 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 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Asset</i>

The adoption of these new standard and interpretations has had no significant financial effect on this unaudited condensed interim financial information and there have been no significant changes to the accounting policies applied in this unaudited condensed interim financial information.

3. OPERATING SEGMENT INFORMATION

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Revenue		
Sale of goods	692,252	604,168
Other income and gains		
Bank interest income	2,719	6,284
Interest income from held-to-maturity investments	2,257	4,220
Gain on disposal of financial assets at fair value through profit or loss	10,535	–
Foreign exchange gains, net	–	17,217
Government grants*	2,169	4,173
Sales of dried meat products	162	694
Others	333	231
	18,175	32,819

* Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land leases, and plant and equipment. The government grants received relating to assets were recognised as deferred income when conditions of these government grants were fulfilled, and released to the other income over the expected useful lives of the relevant assets. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2012.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2012

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	1,676	2,818
Less: Government grants*	(3,000)	(3,305)
Interest capitalised	(1,120)	—
	(2,444)	(487)

* Various government grants have been received in respect of interest expenses incurred for the acquisition of certain plant and equipment. The government grants received were deducted against related interest expenses when conditions of government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2012.

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	24,924	20,664
Amortisation of patent	285	429
Amortisation of prepaid land lease payments	1,012	1,074

7. INCOME TAX

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

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Current tax charge for the period		
– Mainland China	75,549	54,085
Deferred tax	3,609	13,857
Total tax charge for the period	79,158	67,942

8. DIVIDENDS

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Final dividends declared and paid for 2011 – HK6.0 cents (2010: HK4.0 cents) per ordinary share	161,973	113,079
Special dividends declared and paid for 2010 – HK1.0 cent per ordinary share	–	27,955
	161,973	141,034

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2012

8. DIVIDENDS (Continued)

Subsequent to the reporting period, the directors resolved the payment of an interim dividend of HK4.5 cents (2011: HK4.3 cents) per ordinary share and a special dividend of HK1.0 cent (2011: Nil) per ordinary share.

The dividend per ordinary share amounts have been adjusted to reflect bonus issue which took place on 20 June 2011.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2012 is based on the profit for the period attributable to owners of the Company of RMB312,683,000 (six months ended 30 June 2011: RMB305,155,000), and the weighted average number of ordinary shares of 3,322,395,000 (six months ended 30 June 2011: 3,322,120,000, as retrospectively adjusted to reflect the bonus issue which took place on 20 June 2011) in issue during the period ended 30 June 2012.

The calculation of diluted earnings per share amount for the period ended 30 June 2012 is based on the profit for the period attributable to ordinary owners of the Company of RMB312,683,000 (six months ended 30 June 2011: RMB305,155,000). 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 2012, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 4,438,000 (six months ended 30 June 2011: 4,906,000, as retrospectively adjusted to reflect the bonus issue which took place on 20 June 2011) assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group incurred RMB183,061,000 (six months ended 30 June 2011: RMB124,098,000) 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 RMB120,000 (six months ended 30 June 2011: RMB49,000).

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 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 3 months	94,142	146,573
3 to 4 months	9,078	11,354
Over 4 months	18,028	8,299
	121,248	166,226

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2012

12. TRADE AND BILL 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 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 1 month	28,905	37,298
1 to 2 months	6,236	8,962
2 to 3 months	3,518	1,582
Over 3 months	6,344	4,592
	45,003	52,434

13. SHARE CAPITAL

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Authorised:		
20,000,000,000 (31 December 2011: 20,000,000,000) ordinary shares of HK\$0.01 (31 December 2011: HK\$0.01) each	200,000	200,000
Issued and fully paid:		
3,324,120,000 (31 December 2011: 3,322,120,000) ordinary shares of HK\$0.01 (31 December 2011: HK\$0.01) each	33,242	33,222
Equivalent to RMB'000	28,584	28,568

13. SHARE CAPITAL (Continued)

A summary of the transactions 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 31 December 2010						
and at 1 January 2011	1,661,060,000	16,611	1,341,150	14,633	1,181,478	1,196,111
Bonus issue (note (a))	1,661,060,000	16,611	(16,611)	13,935	(13,935)	-
At 30 June 2011, 31 December 2011 and 1 January 2012	3,322,120,000	33,222	1,324,539	28,568	1,167,543	1,196,111
Share option exercise (note (b))	2,000,000	20	5,921	16	4,977	4,993
At 30 June 2012	3,324,120,000	33,242	1,330,460	28,584	1,172,520	1,201,104

Notes:

- (a) Pursuant to the special resolution passed on 15 June 2011, the Company made a bonus issue of 1,661,060,000 bonus shares of HK\$0.01 each on the basis of ten bonus shares for every ten issued ordinary shares.
- (b) The subscription rights attaching to 2,000,000 share options were exercised at the subscription price of HK\$2.165 per share (as adjusted for the bonus issue in 2011), resulting in the issue of 2,000,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$4,330,000 (equivalent to RMB3,680,000). An amount of HK\$1,611,000 (equivalent to RMB1,313,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2012

14. 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 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	52,021	56,123
Plant and machinery	52,962	21,783
Authorised, but not contracted for:		
Production facilities	150,329	183,501
	255,312	261,407

15. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2011: Nil).

16. PLEDGE OF ASSETS

At the end of the reporting period, cash in bank of RMB164,000,000 was pledged to secure bank borrowing amounting to RMB164,440,000 (31 December 2011: bills receivables of RMB42,971,000 was pledged to secure bank borrowings of RMB42,971,000).

17. RELATED PARTY TRANSACTIONS

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

	Notes	Six months ended 30 June	
		2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Company controlled by a director of a subsidiary:			
Sales of products	(i)	875	888
Commission paid	(ii)	201	210
Company controlled by a director of the Company:			
Sales of products	(i)	3,373	3,677
Companies controlled by spouse of a director of the Company:			
Purchases of packing materials	(iii)	14,861	9,113

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 2.0% of the transaction value on the sales of products to those overseas customers arranged by the related company (six months ended 30 June 2011: 2.3%).
- (iii) These transactions were conducted at rates mutually agreed between the parties.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2012

17. RELATED PARTY TRANSACTIONS (Continued)

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

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Salaries, allowances and benefits in kind	1,478	1,512
Performance related bonuses	6,467	6,135
Retirement benefit contributions	15	15
Equity-settled share option expense	478	806
	<hr/>	<hr/>
Total compensation paid/payable to key management personnel	8,438	8,468

18. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 20 August 2012.