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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

2017 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June		
	2017	2016	Change
Revenue *(RMB million)*	**429.9**	430.7	-0.2%
Profit Attributable to Owners of the Company *(RMB million)*	**33.2**	89.0	-62.7%
Profit Attributable to Owners of the Company (excluded return received from contract in progress) *(RMB million)*	**33.2**	63.3	-47.6%
Basic Earnings Per Share *(RMB cents)*	**1.02**	2.73	-62.6%
Interim Dividend Per Share *(HK cents)*	**–**	–	N/A
Cash Inflow from Operating Activities *(RMB million)*	**176.3**	151.7	+16.2%

	1H 2017	FY 2016	1H 2016
Total Assets *(RMB million)*	**3,321.5**	3,503.8	3,524.1
Inventory Turnover Day – Raw Materials *(days)*	**34.1**	33.7	40.2
Inventory Turnover Day – FG & WIP *(days)*	**406.1**	422.0	553.6
Trade Receivables Turnover Day *(days)*	**89.9**	73.9	64.6
Trade Payables Turnover Day *(days)*	**131.9**	107.3	110.4

The board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 (the "Period"), which have been prepared in accordance with the Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by Hong Kong Institute of Certified Public Accountants. The 2017 condensed consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 18 August 2017.

The Group's revenue for the Period was approximately RMB429.9 million, representing a decrease of approximately 0.2% as compared with the same period last year. Unit costs of production remained stable as the Group adopted cost control measures such as energy savings and wastage reduction, mechanization and labour force savings, but overall operating leverage has decreased and led to a decrease in the Group's net profit. Profit attributable to owners of the Company decreased by approximately 62.7% to approximately RMB33.2 million. If the return received from the contract in progress of approximately RMB25.6 million recorded in the first half of 2016 was excluded, the profit attributable to owners of the Company should have decreased by approximately 47.6%. The Group's financial position remained stable. Basic earnings per share of the Group were RMB1.02 cents for the Period and the basic earnings per share of the Group for the six months ended 30 June 2016 (the "Prior Period") were RMB2.73 cents.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	4	**429,917**	430,697
Cost of sales		**(320,093)**	(286,493)
Gross profit		**109,824**	144,204
Other income and gains, net	4	**17,924**	38,647
Selling and distribution expenses		**(20,133)**	(8,805)
Administrative expenses		**(72,362)**	(73,459)
Finance costs	5	**(4,356)**	(7,507)
PROFIT BEFORE TAX	6	**30,897**	93,080
Income tax expense	7	**(5,812)**	(14,154)
PROFIT FOR THE PERIOD		**25,085**	78,926
OTHER COMPREHENSIVE INCOME			
Other comprehensive income may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(1,053)**	(3,262)
NET OTHER COMPREHENSIVE INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(1,053)**	(3,262)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**24,032**	75,664

	Note	Six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Profit attributable to:			
Owners of the Company		**33,194**	88,962
Non-controlling interests		**(8,109)**	(10,036)
		25,085	78,926
Total comprehensive income attributable to:			
Owners of the Company		**32,141**	85,700
Non-controlling interests		**(8,109)**	(10,036)
		24,032	75,664
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		
Basic *(RMB cents per share)*		**1.02**	2.73
Diluted *(RMB cents per share)*		**1.02**	2.73

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	**30 June 2017 *RMB'000* (Unaudited)**	31 December 2016 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,308,032**	1,351,345
Investment properties		**7,342**	7,342
Prepaid land lease payments		**126,697**	118,863
Goodwill		**22,760**	22,760
Other intangible assets		**165,499**	191,219
Available-for-sale investment		**37,100**	37,100
Deferred tax assets		**36,292**	42,973
Long term prepayments		**38,696**	13,318
Total non-current assets		**1,742,418**	1,784,920
CURRENT ASSETS			
Financial asset at fair value through profit or loss		**–**	18,078
Inventories		**749,286**	794,845
Trade and bills receivables	10	**210,147**	215,220
Prepayments, deposits and other receivables		**87,863**	115,766
Pledged deposits		**208,300**	456,000
Cash and cash equivalents		**323,490**	119,016
Total current assets		**1,579,086**	1,718,925
CURRENT LIABILITIES			
Trade and bills payables	11	**66,467**	65,335
Other payables and accruals		**63,996**	104,108
Interest-bearing bank and other borrowings		**292,268**	343,563
Tax payable		**1,537**	3,928
Total current liabilities		**424,268**	516,934
NET CURRENT ASSETS		**1,154,818**	1,201,991
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,897,236**	2,986,911

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		**28,638**	29,980
Deferred tax liabilities		**55,127**	61,655
Total non-current liabilities		**83,765**	91,635
Net assets		**2,813,471**	2,895,276
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	**28,060**	28,060
Reserves		**2,760,193**	2,795,637
		2,788,253	2,823,697
Non-controlling interests		**25,218**	71,579
Total equity		**2,813,471**	2,895,276

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, food products, skin care and health care products and bioactive collagen products.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The unaudited condensed interim financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016.

The accounting policies adopted in the preparation of the unaudited condensed interim financial information are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, except for the adoption of the following new amendments to HKFRSs for the first time for the current period financial information:

Amendments to HKAS 7	*Statement of Cash Flows: Disclosure Initiative*
Amendments to HKAS 12	*Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

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

The Group has not early adopted any new and revised HKFRSs that have been issued but not yet effective.

3. OPERATING SEGMENT INFORMATION

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**429,820**	430,600
Service income	**97**	97
	429,917	430,697
Other income and gains		
Bank interest income	**10,709**	10,875
Gain on disposal of financial assets at fair value through profit or loss	**149**	456
Foreign exchange gains, net	**–**	46
Government grants	**4,520**	1,376
Sales of dried meat products	**500**	220
Return received from contract in progress	**–**	25,643
Change in fair value of a financial asset at fair value through profit or loss	**1,594**	–
Others	**452**	31
	17,924	38,647

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank and other loans	**6,800**	9,406
Less: Government grants	**(2,444)**	(1,899)
	4,356	7,507

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**48,983**	47,332
Less: Amount capitalised	**(9,270)**	(12,887)
	39,713	34,445
Amortisation of prepaid land lease payments	**1,680**	1,520
Amortisation of other intangible assets	**25,852**	25,852
Impairment of trade and bills receivables	**–**	4,093
Loss on disposal of items of property, plant and equipment	**35**	12
Foreign exchange differences – net	**1,326**	(46)
Reversal of provision against obsolete and slow-moving inventories	**(1,185)**	–

7. INCOME TAX

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

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

The provision for the People's Republic of China ("PRC") income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") and Wuzhou Shensheng Collagen Products Co., Ltd., being the Company's wholly-owned subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are subject to the region's preferential corporate income tax rate of 15% as set out in the Notice of the Ministry of Finance, the General Administration of Custom and the State Administration of Taxation on Tax Policy Issues Concerning Further Implementing the Western China Development Strategy (Cai Shui [2011] No. 58).

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax charge for the period		
– PRC	**4,660**	10,970
– Hong Kong	**990**	461
Deferred tax	**162**	2,723
Total tax charge for the period	**5,812**	14,154

8. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend declared and paid for 2016 – HK2.0 cents (2015: HK3.2 cents) per ordinary share	**57,553**	88,211
Special dividend declared and paid for 2016 – HK1.0 cent (2015: Nil) per ordinary share	**28,776**	–
	86,329	88,211

The directors of the Company did not propose any interim dividend in respect of the reporting period (2016: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2017 is based on the profit for the period attributable to owners of the Company of RMB33,194,000 (six months ended 30 June 2016: RMB88,962,000) and the weighted average number of ordinary shares of 3,259,276,000 (six months ended 30 June 2016: 3,259,430,000) in issue during the period ended 30 June 2017.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2017 (six months ended 30 June 2016: Nil).

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for certain customers. An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 June	**31 December**
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**156,567**	160,296
3 to 4 months	**41,607**	40,054
Over 4 months	**11,973**	14,870
	210,147	215,220

11. TRADE AND BILLS PAYABLES

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

	30 June 2017 *RMB'000* **(Unaudited)**	**31 December** 2016 *RMB'000* (Audited)
Within 1 month	**19,769**	29,575
1 to 2 months	**5,975**	4,886
2 to 3 months	**3,828**	9,642
Over 3 months	**36,895**	21,232
	66,467	65,335

The trade and bills payables are non-interest-bearing and are normally settled on terms of range from 60 days to 180 days.

12. SHARE CAPITAL

Shares

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,259,276,000 (31 December 2016: 3,259,276,000) ordinary shares of HK$0.01 each	**32,593**	32,593
	RMB'000	*RMB'000*
Equivalent to	**28,060**	28,060

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

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares *HK$'000*	Share premium *HK$'000*	Equivalent nominal value of ordinary shares *RMB'000*	Equivalent share premium *RMB'000*	Equivalent total *RMB'000*
At 1 January 2016	3,268,276,000	32,683	466,976	28,135	488,999	517,134
Cancellation of shares repurchased *(note)*	(9,000,000)	(90)	(9,193)	(75)	(7,668)	(7,743)
Final 2015 dividend	–	–	(104,297)	–	(88,211)	(88,211)
At 30 June 2016	3,259,276,000	32,593	353,486	28,060	393,120	421,180
At 1 January 2017	**3,259,276,000**	**32,593**	**353,486**	**28,060**	**393,120**	**421,180**
Final 2016 dividend	**–**	**–**	**(97,778)**	**–**	**(86,329)**	**(86,329)**
At 30 June 2017	**3,259,276,000**	**32,593**	**255,708**	**28,060**	**306,791**	**334,851**

Note:

During the six months ended 30 June 2017, no ordinary shares were repurchased or cancelled by the Company.

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

13. EVENTS AFTER THE REPORTING PERIOD

On 13 March 2017, the Group entered into an equity transfer agreement with Guangxi Shenguan Investment Limited ("Guangxi Shenguan"), a company controlled by Ms. Zhou Yaxian, director of the Company, pursuant to which Guangxi Shenguan agreed to dispose of and the Group agreed to acquire 5% equity interest of Ferguson (Wuhan) Biotech Company Limited ("Ferguson") at a consideration of RMB13,380,000.

On the same date, the Group entered into a capital increase agreement with Guangxi Shenguan, Gobitech Limited, an independent third party, and Guangxi Guan Yu Zhiye Limited, a company controlled by Ms. Zhou Yaxian, pursuant to which the Group agreed to make a capital contribution of RMB17,843,900 to Ferguson by cash.

Upon completion of the above transactions, the equity interest attributable to the Group in Ferguson will increase from 15% to 25%. The transactions were completed on 8 August 2017.

Details of the transactions are set out in the Company's announcement dated 13 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the Period, China's economic growth accelerated with overall price stability and expanded employment. The income of urban and rural residents continued to grow rapidly with income gap narrowing. The consumption level keeps increasing and living environment has significantly improved. Moreover, the overall economic environment has improved due to rising domestic and external demand alongside sustained stable but improving import and export, and an optimized and upgraded industrial structure.

According to the National Bureau of Statistics of the People's Republic of China ("PRC"), China's gross domestic product (GDP) recorded a 6.9% increase during the Period. The retail sales of grain, oil and foodstuff grew 11.5% year-on-year, faster than the total retail sales of consumer goods. Total meat production also returned to growth in China. During the Period, the output of pork, beef, mutton and poultry meat was 38.92 million tons, representing an increase of 1.0% year-on-year. Among which, pork output was 24.93 million tons, up 0.8%. During the Period, sales of the Group's main collagen casing products recorded approximately 12.2% growth by volume.

Competition remained intense in the collagen sausage casings market despite steady growth in the overall domestic economy. This, coupled with the destocking of aged products has led to a slight decrease in average selling price of collagen sausage casings of the Group during the first quarter of 2017 as compared to that of the fourth quarter of 2016, which began to recover in the second quarter of 2017 along eased inventory pressure. The average selling price for the second quarter of 2017 was similar to that for the fourth quarter of 2016.

Business Review

To deal with the economic situation and market environment, the Group continued to strengthen the establishment of a marketing system as planned, stringently implement a quality accountability system, increase per capita labour productivity, reduce energy consumption cost, and gradually accomplish the mission of "de-stocking, adjusting structure and maintaining steady growth". During the Period, the sales volume of the Group's collagen sausage casing products increased by 12.2% year-on-year. However, the Group continued to cut price for boosting sales of certain old sausage casing products during the first half of the year which had dragged down the overall average selling price and led to slight decline in sales in the first half of the year.

The Group's revenue for the Period was approximately RMB429.9 million, representing a decrease of approximately 0.2% as compared with the same period last year. Unit costs of production remained stable as the Group adopted cost control measures such as energy savings and wastage reduction, mechanization and labour force savings, but overall operating leverage has decreased and led to a decrease in the Group's net profit. Profit attributable to owners of the Company decreased by approximately 62.7% to approximately RMB33.2 million. If the return received from the contract in progress of approximately RMB25.6 million recorded in the first half of 2016 was excluded, the profit attributable to owners of the Company should have decreased by approximately 47.6% as compared with the same period last year. Earnings per share was RMB1.02 cents. The Group's financial position remained stable.

Diversification

During the Period, the Group continued to make progress in product diversification. "Meday" collagen chips and "COLL-FULL" collagen piece facial masks are both qualified for mass production and products of the two brands were officially launched for sales in early 2017. However, the sales contribution remains small for the Period. The Group has also appointed Chinese actress Xu Lu in May this year, as ambassador for the "COLL-FULL" brand. In the future, the Group will further strengthen market planning and marketing accordingly so as to capture a larger market share.

Moreover, the Group is increasing its equity interests in Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") and Ferguson (Wuhan) Biotech Company Limited ("Ferguson Wuhan") respectively during the Period. For details, please refer to the "Significant investments, material acquisitions and disposals of subsidiaries, associated companies and joint ventures" section of this announcement.

The Group completed the purchase of a six-storey property in Singapore on 25 August 2016, which has a gross floor area of approximately 3,400 square meters on each floor. The Group plans to use it for research and development, production and sale of various new product. Recently, the Group is applying to the relevant departments of the Singapore Government for approval to refurbish the property and permission to produce various new products.

Collagen Sausage Casings

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which are used for production of western sausages. Product innovation and diversification by sausage manufacturers continued to create demand for sausage casings of different sizes and fillings.

In order to keep pace with new trend in the domestic meat product industry, the Group also launched new products that can be applied to more types of sausage fillings to cater for the market. The Group is now gradually promoting the use of these products. At the same time, the Group also makes great efforts in enhancing internal management, streamlining production processes and improving efficiency.

With respect to the supply of raw materials, cattle's inner skin is a major raw material for production of collagen sausage casings. The supply of cattle's inner skin remained stable over the past few years, and such situation is expected to remain unchanged in the coming years. During the Period, in response to the market situation, the Group used its bargaining power of bulk purchases to successfully reduce the purchase price of raw materials and effectively controlled the production cost, increasing the competitiveness of the Group's products in the future.

Technological Research & Development

As the largest enterprise utilizing collagen technologies in China, the Group is committed to stepping up the development of its core collagen technologies, with an aim of establishing a base for the production of safe, reliable and standardized materials required by the health industry. The move will also upgrade and transform the collagen industry and proactively promote the application of collagen in the health industry.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan"), a wholly-owned subsidiary of the Company, maintained the titles as the national-grade "Post-doctoral Science Research Workstation (博士後科研工作站)" and "Cluster of Collagen Technology Talents in Guangxi (廣西膠原蛋白技術人才小高地)", and as research and development platforms such as "Guangxi Collagen Engineering Technology Research Center" (廣西膠原蛋白工程技術中心), "Guangxi Enterprise Technology Center (廣西企業技術中心)", "Guangxi Enterprise Research and Development Center (廣西企業研發中心)" and have received financial subsidies granted by the Department of Finance of Guangxi Province of the PRC. As at 30 June 2017, the Group have recruited nine professionals, including five doctorate degree holders and four graduates of master's degrees to enhance the Group's technological development and market expansion capabilities.

As at 30 June 2017, the Group had 56 valid patents granted by the State Intellectual Property Office of the PRC, and had 13 patent applications accepted by the relevant authorities and pending approval.

Among those applications, Guangdong Victory had 3 patent applications lodged to the State Intellectual Property Office of the PRC during the Period, and 1 application was accepted and pending approval. Moreover, the filings for certification of three new products, i.e. "Fibrous Type I Collagen (Q/SCSW 2-2017)", "Medical Soluble Type I Collagen (Q/SCSW 3-2017)" and "Collagen Wound Dressing (Q/SCSW 4-2017)", submitted to the Administration of Quality and Technology Supervision of Guangdong Province of the PRC by Guangdong Victory during the Period were completed in July 2017.

Quality Control

The Group stringently monitors each production step to ensure that its products are of the best quality and comply with all safety requirements. The Group's production of collagen sausage casings has passed the ISO9001:2008 Quality Management System and ISO22000:2005 Food Safety Management System certifications, and has obtained the QS Food Production Permit. It has also been registered with the Food and Drug Administration in the United States for export of sausage casing products to the United States. In addition, the production of all sausage casing products of the Group has strictly complied with the PRC national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are recognition of the Group as a trustworthy product supplier to its customers.

Guangxi Wuzhou Zhongguan Testing Technology Services Co., Ltd. ("Wuzhou Zhongguan"), a subsidiary of the Group, is able to examine over 200 indicators, including physicochemical indicators such as heavy metals and microelements, pesticide residues, microorganisms and proteins. Currently, Wuzhou Zhongguan continues to independently undertake third-party inspection assignments, and can directly undertake various food and relevant product testing services and issue officially-recognized testing reports. Such qualification is going to lay a solid foundation for the Group to develop into a collagen materials base, thereby facilitating the development of high-end foods, healthcare products and medications in the health industry.

Customer Relationship

The Group is committed to developing long-term cooperation relationships based on mutual trust with its business partners and has built a sophisticated customer network. The Group has maintained its closely-knit connections and established an extensive contact network with leading manufacturers of processed meat products and sausages both in China and in various overseas markets such as South America, Southeast Asia and the United States. During the Period, the Group continued to supply high-quality sausage casing products to a number of renowned food manufacturers in China. The number of domestic customers remained stable.

FINANCIAL ANALYSIS

Revenue

Revenue for the Period decreased by approximately 0.2% to approximately RMB429.9 million from approximately RMB430.7 million for the Prior Period. Although the sales volume of collagen sausage casing increased by approximately 12.2%, the overall decrease in product price in the industry and the Group's commitment to reduce the inventory level have led to the decline in the average selling price. The average selling price still dropped slightly in the first quarter of 2017 when comparing with the fourth quarter of 2016, but started to rebound from the second quarter of 2017 as inventory pressure eased. The average selling price for the second quarter of 2017 was similar to that for the fourth quarter of 2016.

Cost of sales

Cost of sales increased by approximately 11.7% to approximately RMB320.1 million for the Period from approximately RMB286.5 million for the Prior Period, including reversal of provision of inventory of approximately RMB1.2 million. Excluding the reversal of provision of inventory, the cost of sales increased by approximately 12.1% to approximately RMB321.3 million for the Period. The increase was in line with the sales volume growth, and the Group has also taken various measures to control the unit costs of production. The costs of raw materials increased by approximately 13.6% to approximately RMB128.6 million. In addition, the charges for energy increased by approximately 8.1% to approximately RMB71.8 million as the Group continued to control energy consumption. The direct labor cost increased by 11.0% to approximately RMB62.1 million.

Gross profit

Gross profit decreased by approximately 23.8% to approximately RMB109.8 million for the Period from approximately RMB144.2 million for the Prior Period. The gross profit margin decreased from 33.5% to 25.5% for the Period. The decrease in gross profit margin is mainly due to the overall decrease in product price in the industry and the Group's effort in reducing inventory level, which had led to a decline in the average selling price.

Other income and gains

Other income and gains decreased by approximately 53.6% to approximately RMB17.9 million for the Period from approximately RMB38.6 million for the Prior Period. In 2012, the Group entered into a land development investment contract (the "Development Contract") with an independent third party. The costs incurred by the Group in connection with the Development Contract comprised mainly the costs incurred in demolition and relocation and land acquisition compensation fees during the period of land development (the "Contract Costs"). Since the land's auction occurred later than expected, the Group had continuous negotiation with such independent third party on withdrawing from the Development Contract. On 2 March 2016, the Group entered into a settlement agreement with such independent third party, pursuant to which, such independent third party agreed to transfer the land development project from the Group back to such independent third party, and refund the Contract Costs together with the accrued return of 10% per annum. As a result, the Group recorded a return received from contract in progress of approximately RMB25.6 million in the first half of 2016, which was absent for the Period.

On the other hand, there was a gain of change in fair value of a financial asset at fair value through profit or loss of approximately RMB1.6 million recorded during the Period, please refer to the section of "Financial asset at fair value through profit or loss".

Selling and distribution expenses

Selling and distribution expenses increased by approximately 128.7% from approximately RMB8.8 million for the Prior Period to approximately RMB20.1 million for the Period, mainly due to the increase in marketing costs for the promotion of various new products including the "Meday" collagen chips and the "COLL-FULL" collagen piece facial masks, as well as the increase in wages due to the expansion in sales team. Selling and distribution expenses as a percentage of revenue increased to approximately 4.7% for the Period from approximately 2.0% for the Prior Period.

Administrative expenses

Administrative expenses decreased by approximately 1.5% to approximately RMB72.3 million for the Period from approximately RMB73.5 million for the Prior Period.

For the technologies acquired by the Group through the acquisition of Guangdong Victory, the intangible assets are amortized over five years. The related amortization expense was approximately RMB25.4 million for the Period. After deducting minority interest and deferred tax of Guangdong Victory, the effect of the related amortization expense on the net profit of the Group was approximately RMB11.6 million. The effect of such amortization expense on the net profit of the Group was approximately RMB9.7 million for the Prior Period. The factor above which had a relatively material impact on the net profit for the Period were non-cash items and the cash flow of the Group was not affected.

Finance costs

Finance costs decreased by approximately 42.0% to approximately RMB4.4 million for the Period from approximately RMB7.5 million for the Prior Period.

Income tax expenses

Income tax expenses were approximately RMB5.8 million for the Period, as compared to approximately RMB14.2 million for the Prior Period. The Company's major operating subsidiaries, Wuzhou Shenguan and Wuzhou Shensheng Collagen Products Co., Ltd. ("Shensheng Collagen") enjoyed a preferential tax treatment because of their location in western China and their engagement in industries encouraged by government policies. The applicable tax rate for Wuzhou Shenguan and Shensheng Collagen was 15%.

The effective tax rates applied to the Group was approximately 15.2% and approximately 18.8% of profit before tax, respectively for the Prior Period and the Period.

Loss attributable to minority interests

The loss attributable to minority interests for the Period was approximately RMB8.1 million, mainly representing the amortization expense of technology intangible assets attributable to the minority interests in Guangdong Victory.

Profit attributable to owners of the Company

Due to the aforesaid reasons and adding back the loss attributable to minority interests of approximately RMB8.1 million, profit attributable to owners of the Company decreased by approximately 62.7% to approximately RMB33.2 million for the Period from approximately RMB89.0 million for the Prior Period. If the return received from the contract in progress of approximately RMB25.6 million recorded in the first half of 2016 was excluded, the profit attributable to owners of the Company should have decreased by approximately 47.6% as compared with the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank borrowings

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

As at 30 June 2017, the cash and cash equivalents together with pledged deposits amounted to approximately RMB531.8 million, representing a decrease of approximately RMB43.2 million from the end of 2016. Among these balances, approximately 94.4% was denominated in Renminbi, and the remaining 5.6% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 30 June 2017, the total bank borrowings of the Group amounted to approximately RMB292.3 million, representing a decrease of approximately RMB51.3 million (as at 31 December 2016: approximately RMB343.6 million), and all the bank borrowings were wholly repayable within one year. Of which, the total bank borrowings denominated in Renminbi were approximately RMB250 million, while the total bank borrowings denominated in Hong Kong dollars were HK$48.7 million (translated to approximately RMB42.3 million).

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB239.5 million as at 30 June 2017, representing an increase of approximately RMB8.1 million as compared to that at the end of 2016. The debt-to-equity ratio was 10.4% as at 30 June 2017 (as at 31 December 2016: 11.9%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Period, the net cash inflow of approximately RMB176.3 million and RMB161.2 million was generated from operating activities and investing activities, respectively, while financing activities utilized approximately RMB162.3 million. The net cash inflow in investment activities was mainly attributable to the cash inflow from decrease in pledged deposit, and the cash outflow for purchase of property, plant and equipment. The net cash outflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowing and the new bank borrowings and the payment of 2016 final dividend.

Financial asset at fair value through profit or loss

Pursuant to an equity transfer agreement in respect of the acquisition of 51% equity interests in Guangdong Victory entered into between the Group and Enneford Industrial Limited ("Enneford") on 20 July 2015 (the "2015 Equity Transfer Agreement"), the Group was granted with a put option (the "Put Option"), whereby the Group has the discretion to request Enneford to repurchase the 51% equity interest in Guangdong Victory owned by the Group at a consideration of approximately RMB146,880,000 and the capital contribution made by the Group (if any) to Guangdong Victory since completion of the said acquisition, if the annual sales revenue of Guangdong Victory fails to reach RMB120,000,000 and Guangdong Victory fails to obtain the production permits of certain products occur on 31 December 2020. The Put Option is exercisable as at the date immediately after 31 December 2020.

As the Group completed a stake increase which increased its equity interests in Guangdong Victory to 80% in May 2017 and cancelled the Put Option, the Group held no financial asset at fair value through profit or loss as at the end of the Period.

The Put Option was measured at fair value of approximately RMB19,670,000 as at 30 April 2017, the increase in fair value of the Put Option of RMB1,594,000 as compared to that of 31 December 2016 was recognized in other income and gains.

Exposure to exchange risks

The Group mainly operates in Mainland China with most of its transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations are mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board believes that the future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

Capital expenditure

The capital expenditure of the Group during the Period amounted to approximately RMB9.0 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 30 June 2017 amounted to approximately RMB113.1 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2017 amounted to approximately RMB140 million, which will be used for the upgrade and intellectualization of production facilities for sausage casing business, as well as expansion of production facilities of the newly acquired corporations, and the renovation and addition of equipment for the research and development center in Singapore.

Pledge of assets

As at 30 June 2017, pledged bank deposits amounted to approximately RMB208.3 million in total.

Contingent liabilities

As at 30 June 2017 and up to the date of this announcement, the Group was not aware of any material contingent liabilities.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Acquisition of equity interest in Ferguson Wuhan

On 13 March 2017, Wuzhou Shenguan entered into an equity transfer agreement with Guangxi Shenguan Investment Limited ("Guangxi Shenguan"), pursuant to which Guangxi Shenguan agreed to dispose of and Wuzhou Shenguan agreed to acquire 5% equity interest of Ferguson Wuhan at a consideration of RMB13,380,000 (the "Equity Transfer"). Upon completion of the Equity Transfer, Ferguson Wuhan will be owned as to 40%, 20%, 20% and 20% by Guangxi Shenguan, Gobitech Limited, Guangxi Guan Yu Zhiye Limited ("Guangxi Guan Yu") and Wuzhou Shenguan, respectively.

On 13 March 2017, Wuzhou Shenguan entered into a capital increase agreement with Guangxi Shenguan, Gobitech Limited and Guangxi Guan Yu, pursuant to which Wuzhou Shenguan agreed to make a capital contribution of RMB17,843,900 to Ferguson Wuhan by cash, of which RMB5,611,300 would be contributed to the registered capital of Ferguson Wuhan and RMB12,232,600 would be contributed to the capital reserve of Ferguson Wuhan (the "Capital Increase"). Upon completion of the Capital Increase, (i) the registered capital of Ferguson Wuhan would be increased by approximately 6.67% from RMB84,170,000 to RMB89,781,300; and (ii) Ferguson Wuhan would be held as to 37.5%, 18.75%, 18.75% and 25% by Guangxi Shenguan, Gobitech Limited, Guangxi Guan Yu and Wuzhou Shenguan, respectively.

Upon completion of the Capital Increase, the equity interest of Wuzhou Shenguan in Ferguson Wuhan would be increased from 20% to 25%. As such, the Capital Increase constitutes an acquisition of 5% equity interest in Ferguson Wuhan.

As at 13 March 2017, (i) Guangxi Shenguan is owned as to 95% by Ms. Zhou Yaxian ("Ms. Zhou"); and (ii) Guangxi Guan Yu is owned as to 88%, 3%, 3% and 3% by Ms. Zhou, Mr. Ru Xiquan ("Mr. Ru"), Mr. Shi Guicheng ("Mr. Shi") and Mr. Mo Yunxi ("Mr. Mo"), respectively. Since Ms. Zhou is an executive Director and a controlling shareholder of the Company, whereas each of Mr. Ru, Mr. Shi and Mr. Mo is an executive Director, each of Guangxi Shenguan and Guangxi Guan Yu is thus a connected person of the Company. Accordingly, the Equity Transfer and the Capital Increase constitute connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

For further details, please refer to the announcement of the Company dated 13 March 2017.

On 8 August 2017, both the Equity Transfer and Capital Increase were completed.

Equity transfer agreement in relation to acquisition of 29% equity interest in Guangdong Victory and termination of put option

On 23 March 2017, Wuzhou Shenguan Investment Development Company Limited ("Wuzhou Shenguan Investment") and Enneford (the "Vendor") entered into an equity transfer agreement (the "2017 Equity Transfer Agreement"), pursuant to which, among others, (i) Wuzhou Shenguan Investment has agreed to acquire and the Vendor has agreed to sell 29% equity interests of Guangdong Victory at a total consideration of RMB23,850,000 (the "Acquisition"); and (ii) both Wuzhou Shenguan Investment and the Vendor have agreed to terminate the Put Option. Upon completion of the Acquisition, Guangdong Victory would be held as to 80% by Wuzhou Shenguan Investment and remain as an indirect non-wholly-owned subsidiary of the Company.

As at 23 March 2017, the Vendor holds as to 49% of the equity interest of Guangdong Victory. Hence, the Vendor is a substantial shareholder of Guangdong Victory and thus a connected person of the Company. The Acquisition and the termination of the Put Option therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

For further details, please refer to the announcements of the Company dated 20 July 2015 and 23 March 2017.

The transactions contemplated under the 2017 Equity Transfer Agreement have been completed during the Period.

Saved as disclosed in this announcement, the Group had no other significant investments, material acquisitions or disposals of subsidiaries, associated companies or joint ventures during the Period.

Human Resources

As at 30 June 2017, the Group hired a total of approximately 2,900 contract employees. During the Period, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB87.3 million (first half of 2016: approximately RMB74.7 million). In order to attract and retain outstanding talented staff to ensure smooth business operation and to cope with the need of its continuing expansion, the Group offers competitive remuneration packages with reference to the market conditions as well as individual qualifications and experience.

PROSPECTS AND STRATEGIES

Looking forward to the second half of the year, China's economy will continue to expand at a moderate pace and the economic structure become more balanced. The Thirteenth Five-Year Plan promulgated by the PRC Government and the relevant departments, which includes the "Thirteenth Five-Year Development Plan on the National Strategic Emerging Industries (「十三五」國家戰略性新興產業發展規劃)", the "Thirteenth Five-Year Innovation Plan on

National Science and Technology (「十三五」國家科技創新規劃)", the "Guiding Catalogue of Key Products and Services in Strategic Emerging Industries (戰略性新興產業重點產品和服務指導目錄)" and the "Planning Guide on the Development of the Pharmaceutical Industry (醫藥工業發展規劃指南)", has added the collagen biotechnology industry into the list of strategic emerging industries with national support. This provides a favorable opportunity and room for the development of the Group's product diversification strategy. Moreover, various documents, such as the "Notice Regarding the National Nutrition Programme (2017–2030) – Guo Ban Fa [2017] No. 60" (國民營養計劃（2017–2030年）的通知－國辦發[2017]60號) published by the General Office of the State Council of the PRC during the Period and the "Guiding Opinions on the Promotion of the Sound Development of the Food Industry – Fa Gai Chan Ye [2017] No. 19" (關於促進食品工業健康發展的指導意見－發改產業[2017]19號) published by the National Development and Reform Commission and the Ministry of Industry and Information Technology of the PRC, will be more conducive to the future development of the Group.

In the second half of 2017, the Group will continue to follow the established Thirteenth Five-Year Plan, and use its collagen technologies as the core technology, its collagen sausage casing business as the foundation, and collagen-based products such as foods, healthcare products, cosmetic products, medical products and medical materials as the development direction, through automation and knowledge-based measures to achieve product diversification and strengthen the development of the health industry and emerging strategic industries, thereby developing Shenguan into a world-class base for collagen research and development and application, and the largest supplier of collagen raw materials. The Group will launch new products, such as solid collagen, in the second half of 2017.

While adhering to the mission of "de-stocking, adjusting structure, maintaining stable growth", the Group will enhance development in setting up the Group's management model, and sales and marketing system so as to maintain its leading position in the collagen sausage casing market. The Group will also establish a quality control model and introduce stringent quality responsibility system to ensure the quality objectives are achieved. At the same time, the Group will innovate to improve labor productivity per capita, reduce the costs of energy consumption, improve the quality and lower the costs.

The Group will take into account the effect of climate and sales seasonality in the production management and make full use of abundant production capacity when formulate annual, monthly and daily production plans. The Group will avoid production arrangements during the summer period with high energy consumption and low production efficiency, and during the higher tariff periods of each day, in order to reduce energy consumption and improve production efficiency.

The Group will also consolidate its marketing and sales team. In particular, it will step up the establishment of the marketing team for non-casing new products for further expansion of the sales channels of its products, formulate sales incentive policy and customer support in order to accomplish sales targets.

Better livelihood, continuously rising consumption and diversified consumer needs will create new market opportunities. The recovery of pork consumption from the decline in the past two years will benefit the Group's development. However, the expected increase in labour costs, raw materials costs, environmental costs and service costs, will impose certain pressure on the business operations. As the Group's overall operations remains solid and overall financial position remains sound and healthy, the Group believes that the above initiatives will continue to foster its sustainable development, promote the development of the collagen sausage casing business and further widen the application of collagen technology to generate fruitful returns for shareholders of the Company (the "Shareholders") in the long term.

OTHER INFORMATION

PAYMENT OF INTERIM DIVIDENDS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the Period.

UPDATE ON DIRECTOR AND SENIOR MANAGEMENT INFORMATION

Changes in the information of Director and senior management of the Company since the disclosure made in the 2016 annual report of the Company, that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

1. Mr. Tsui Yung Kwok (who is the independent non-executive director of the Company) resigned as the company secretary of Ju Teng International Holdings Limited, a listed public company in Hong Kong (stock code: 3336), on 1 March 2017.

2. Mr. Ng Yuk Yeung (who is the company secretary of the Company) was appointed as an independent non-executive director of BGMC International Limited, a listed public company in Hong Kong (stock code: 1693), on 3 July 2017.

CORPORATE GOVERNANCE CODE

Save as disclosed below, the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the Period.

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

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

The Company understands the importance to comply with the code provision A.2.1 of the Code and will continue to consider the feasibility of appointing a separate chief executive. The Company will make timely announcement if the chief executive has been appointed.

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

Model Code to the Listing Rules

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

The Company has made specific enquiry with all the Directors and all the Directors have confirmed that they had complied with the Model Code during the Period. Moreover, no incident of non-compliance of the Model Code by the senior management was noted by the Company.

Audit Committee

The audit committee of the Board comprises of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Tsui Yung Kwok who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee.

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

The condensed consolidated unaudited interim results of the Group for the Period have been reviewed by the Company's auditor, Ernst & Young.

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

Hong Kong, 18 August 2017

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi; the non-executive Director is Dato' Sri Low Jee Keong; and the independent non-executive Directors are Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.