



Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 00829

2017 Interim Report



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Zhou Yaxian (*Chairman and President*)
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

NON-EXECUTIVE DIRECTOR

Dato' Sri 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

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REGISTERED OFFICE

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KY1-1111
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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
The Hongkong and Shanghai Banking
Corporation

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

KEY DATES

13 October 2009
Listed on Hong Kong Stock Exchange

18 August 2017
Announcement of 2017 Interim Results

REGISTRAR & TRANSFER OFFICES

Principal:

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch:

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

SHARE INFORMATION

Board lot size: 2,000 shares

Shares in issue as at 30 June 2017
3,259,276,000 shares

Market capitalization as at 30 June 2017
HK\$1,613,341,620

Basic earnings per share for 2017
Half year RMB1.02 cents

ENQUIRIES CONTACT

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WEBSITE

www.shenguan.com.cn

KEY FINANCIAL HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS

	2017	2016	change
	For the six months ended 30 June		
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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

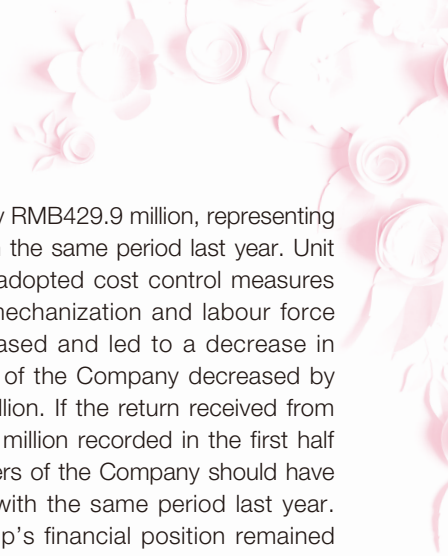
During the Period, China's economic growth accelerated with overall price stability and expanded employment. The income of urban and rural residents continued to grow rapidly with income gap narrowing. The consumption level keeps increasing and living environment has significantly improved. Moreover, 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 interim report.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 interests 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 interim report, the Group was not aware of any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, the Group had no other significant investments, material acquisitions or disposals of subsidiaries, associated companies or joint ventures during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEME

There is no share option outstanding, granted, cancelled and lapsed under the share option scheme of the Company during the six months ended 30 June 2017.

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.

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 2017, interests and short positions in the shares (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 (Chapter 571 of the Laws of Hong Kong) (“SFO”)) held by the Directors and chief executives of the Company which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the “Model Code”) are as follows:

1. Interests and Short Position in the Shares (the “Shares”) of the Company

Name of Directors	Capacity/Nature	Number of Shares	Approximate percentage of issued share capital of the Company
Ms. Zhou Yaxian ("Ms. Zhou")	Interest of controlled corporation (Note 2)	2,218,742,000 (L)	68.07
	Beneficial owner	200,000 (L)	0.01
Dato' Sri Low Jee Keong ("Dato' Sri Low")	Interest of controlled corporation (Note 3)	78,936,000 (L)	2.42
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

MANAGEMENT DISCUSSION AND ANALYSIS

2. Long Position in the Ordinary Shares of Associated Corporations

Name of Directors	Name of the associated corporation	Capacity/Nature	Number 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
Dato’ Sri Low	Rich Top Future	Interest of controlled corporation (Note 3)	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”) which 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. Dato’ Sri Low holds 100% interest in Wealthy Safe Management Limited (“Wealthy Safe”), which holds 78,936,000 Shares. Therefore, Dato’ Sri Low is deemed or taken to be, interested in all the Shares held by Wealthy Safe for the purpose of the SFO. Dato’ Sri 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 2017, 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 2017, 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	Number of Shares	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	1,926,240,000 (L)	59.10
Xian Sheng	Beneficial owner	248,040,000 (L)	7.61
Glories Site	Interest of controlled corporation (Note 2)	1,926,240,000 (L)	59.10
Hong Kong Shenguan	Interest of controlled corporation (Note 3)	2,174,280,000 (L)	66.71
	Beneficial owner	44,462,000 (L)	1.36
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse (Note 4)	2,218,942,000 (L)	68.08

Notes:

- The letters "L" denote a long position in the Shares.
- 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.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Hong Kong Shenguan is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO.
4. Ms. Zhou holds 100% interest in Hong Kong Shenguan and Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Hong Kong Shenguan, Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou beneficially owns 200,000 Shares. 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, as at 30 June 2017, 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.

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 interim report.

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

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 48, which comprises the condensed consolidated statement of financial position of Shenguan Holdings (Group) Limited (the “Company”) and its subsidiaries (together the “Group”) as at 30 June 2017 and the related condensed consolidated statement of profit or loss and other 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 “HKICPA”).

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 HKICPA. 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 (Continued)

(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 2017 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

18 August 2017

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	(Unaudited) RMB'000	(Unaudited) RMB'000
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			
<i>Other comprehensive income may be reclassified to profit or loss in subsequent periods:</i>			
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

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Note	RMB'000	RMB'000
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 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	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	11	–	18,078
Inventories		749,286	794,845
Trade and bills receivables	12	210,147	215,220
Prepayments, deposits and other receivables		87,863	115,766
Pledged deposits	17	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	13	66,467	65,335
Other payables and accruals		63,996	104,108
Interest-bearing bank and other borrowings	17	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 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
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	14	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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company									
	Share	Reserve	Capital	Exchange	Treasury	Retained	Total	Non-	Total	
	Issued	Contributed	Reserve	fluctuation	share	profits	(Unaudited)	controlling	equity	
	capital	surplus	funds	reserve	(Unaudited)	(Unaudited)	(Unaudited)	interests	(Unaudited)	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016 (Audited)	28,135	488,939*	369,723*	4,758*	(6,140)*	2,246,009*	2,780,749	89,746	2,870,495	
Profit for the period	-	-	-	(86,451)*	-	88,962	88,962	(10,036)	78,926	
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	(3,262)	-	-	(3,262)	-	(3,262)	
Total comprehensive income for the period	-	-	-	(3,262)	-	88,962	85,700	(10,036)	75,664	
Share repurchase	-	-	-	-	(1,624)	-	(1,624)	-	(1,624)	
Cancellation of share repurchased	(75)	(7,668)	-	-	7,764	-	21	-	21	
Final 2015 dividend	-	(88,211)	-	-	-	-	(88,211)	-	(88,211)	
At 30 June 2016 (Unaudited)	28,060	393,120	369,723	4,758	(89,713)	2,334,971	2,776,635	79,710	2,856,345	

Attributable to owners of the Company

	Share		Exchange					Non-		Total equity (Unaudited) RMB'000	
	Issued capital (Unaudited) RMB'000	premium account (Unaudited) RMB'000	Contributed surplus (Unaudited) RMB'000	Reserve funds (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	fluctuation reserve (Unaudited) RMB'000	Other reserve (Unaudited) RMB'000	Treasury share (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000		controlling interests (Unaudited) RMB'000
At 1 January 2017 (Audited)	28,060	393,120*	59*	369,723*	4,758*	(107,852)*	(264,343)*	-*	2,400,172*	71,579	2,895,276
Profit for the period	-	-	-	-	-	-	-	-	33,194	(8,109)	25,085
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	(1,053)	-	-	-	(1,053)	(1,053)
Total comprehensive income for the period	-	-	-	-	-	(1,053)	-	-	33,194	(8,109)	24,082
Capital contribution to a subsidiary	-	-	-	-	-	-	-	-	-	702	702
Acquisition of non-controlling interests	-	-	-	-	18,744	-	-	-	-	(38,954)	(18,091)
Final 2016 dividend and special dividend	-	(86,329)	-	-	-	-	-	-	-	(86,329)	(86,329)
Transfer from retained profits	-	-	-	9,213	-	-	-	-	(9,213)	-	-
At 30 June 2017 (Unaudited)	28,060	306,791*	59*	378,936*	23,502*	(108,905)*	(264,343)*	-*	2,424,153*	25,218	2,813,471

* These reserve accounts comprise the consolidated reserves of RMB2,760,193,000 (31 December 2016: RMB2,795,637,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	135,867	165,017
Interest received	48,477	8,210
PRC corporate income tax paid	(8,050)	(21,497)
	<hr/>	<hr/>
Net cash flows from operating activities	176,294	151,730
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(24,589)	(25,449)
Increase in long-term prepayment	(32,057)	–
Net changes to financial assets at fair value through profit or loss	149	456
Decrease/(increase) in pledged deposits	247,700	(12,799)
Receipt refund on contract in progress	–	153,707
Increase in non-pledged time deposits with original maturity of more than three months when acquired	(30,000)	–
	<hr/>	<hr/>
Net cash flows from investing activities	161,203	115,915
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	110,000	330,000
Repayment of bank loans	(160,000)	(483,745)
Dividends paid	(86,329)	(88,211)
Share repurchase	–	(1,618)
Acquisition of non-controlling interests	(20,540)	–
Other cash flows arising from financing activities	(5,459)	(8,677)
	<hr/>	<hr/>
Net cash flows used in financing activities	(162,328)	(252,251)

Six months ended 30 June
2017 2016
(Unaudited) (Unaudited)
RMB'000 RMB'000

NET INCREASE IN CASH AND CASH EQUIVALENTS

	175,169	15,394
Cash and cash equivalents at beginning of period	119,016	110,784
Effect of foreign exchange rate changes, net	(695)	520

CASH AND CASH EQUIVALENTS AT END OF PERIOD

	293,490	126,698
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ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances	84,490	126,698
Non-pledged time deposits with original maturity of less than three months when acquired	209,000	-

Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	293,490	126,698
Non-pledged time deposits with original maturity of over three months when acquired	30,000	100,000

Cash and cash equivalents as stated in the consolidated statement of financial position	323,490	226,698
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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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

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	<i>Statement of Cash Flows: Disclosure Initiative</i>
Amendments to HKAS 12	<i>Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses</i>

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.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Revenue		
Sale of goods	429,820	430,600
Service income	97	97
	429,917	430,697
Other income and gains, net		
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

- * Various government grants have been received in respect of significant tax contribution, 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 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 2017 (2016: Nil).

5. FINANCE COSTS

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

- * Various government grants have been received in respect of interest expenses incurred for the purchase of raw materials. 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 2017.

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
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)	-

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

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. 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
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
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
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
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).

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group incurred RMB9,002,000 (six months ended 30 June 2016: RMB18,789,000) 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 RMB35,000 (six months ended 30 June 2016: RMB12,000).

11. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Put option	-	18,078

During 2015, as part of the acquisition agreement on Guangdong Victory Biotech Co., Ltd. (“Guangdong Victory”), the Group was granted with a put option, whereby the Group has the discretion to request Enneford Industrial Limited (“Enneford”), the non-controlling shareholder of Guangdong Victory, to repurchase the 51% equity interest in Guangdong Victory owned by the Group at a consideration of RMB148,800,000 and the capital contribution made by the Group (if any), if the annual sales revenue of Guangdong Victory fails to reach RMB120,000,000 and fails to obtain the production permits of certain medical products for the year ending 31 December 2020.

On 23 March 2017, the Group entered into an equity transfer agreement with Enneford, pursuant to which the Group has agreed to acquire and Enneford has agreed to sell 29% equity interests of Guangdong Victory. As part of the equity transfer agreement, both the Group and Enneford have agreed to terminate the put option under the 2015 Guangdong Victory Agreement.

12. 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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
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

13. 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 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
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.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

14. SHARE CAPITAL Shares

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
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

14. SHARE CAPITAL (Continued)

Shares (Continued)

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	Share premium	Equivalent nominal value of ordinary shares	Equivalent share premium	Equivalent total (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	RMB'000	RMB'000	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 and special 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.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

15. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	103,570	103,377
Plant and machinery	9,558	11,426
	113,128	114,803

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2016: Nil).

17. PLEDGE OF ASSETS

At the end of the reporting period, cash in bank of RMB150,000,000 (31 December 2016: RMB430,000,000), RMB8,300,000 (31 December 2016: Nil) and RMB50,000,000 (31 December 2016: RMB26,000,000) were pledged to secure bank borrowings amounting to RMB132,268,000 (31 December 2016: RMB133,563,000), bills payable amounting to RMB29,000,000 (31 December 2016: Nil) and discounted bills amounting to RMB50,000,000 (31 December 2016: RMB80,000,000), respectively.

18. RELATED PARTY DISCLOSURES

- (a) In addition to those transactions detailed elsewhere in the interim financial information, the Group had the following material transactions with related parties during the period:

		Six months ended 30 June	
		2017	2016
	Notes	(Unaudited) RMB'000	(Unaudited) RMB'000
Company controlled by a director of the Company:			
Continuing connected transactions:			
Sales of products	(i)	1,648	615
Purchases of cattle hides	(ii)	27,022	24,720
Rent of production premises	(ii)	564	–
Administrative support and liaising services	(ii)	88	–
Companies controlled by spouse of a director of the Company:			
Continuing connected transactions:			
Purchases of packing materials	(ii)	12,473	7,793

Notes:

- (i) The sales were made according to the prices and conditions offered to major customers of the Group.
- (ii) These transactions were based on terms mutually agreed between the parties.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

18. RELATED PARTY DISCLOSURES (Continued)

(b) Balance with a related party

As at 30 June 2017, included in “Trade and bills receivables” represented an amount of RMB1,621,000 (31 December 2016: RMB2,730,000) due from LJK Frozen SDN. BHD (“LJK”), which is controlled by Dato’ Sri Low Jee Keong, a director of the Company. The amount due from LJK is unsecured, non-interest-bearing and has a repayment term of 45 days, which is on terms similar to those offered to other major customers of the Group.

For the purpose of purchasing cattle hides, as at 30 June 2017, included in “Prepayments, deposits and other receivables” and “Trade and bills payable” represented amount of RMB8,163,000 of bills receivable (31 December 2016: Nil) prepaid to Guangxi Zhiguan Industrial Development Co., Limited (“Zhiguan”) and RMB29,000,000 of bills payable (31 December 2016: RMB7,109,000 of trade payable), respectively. Zhiguan is controlled by Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, directors of the Company. The trade and bills payables are settled on terms no longer than 180 days.

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	2,883	2,883
Performance related bonuses	343	1,496
Retirement benefit contributions	4	3
Total compensation paid/payable to key management personnel	3,230	4,382

19. FAIR VALUE MEASUREMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instrument:

Asset measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
<i>As at 30 June 2017</i>				
Financial asset at fair value through profit or loss	-	-	-	-
<i>As at 31 December 2016</i>				
Financial asset at fair value through profit or loss	-	-	18,078	18,078

The Group did not have any financial liabilities measured at fair value as at 30 June 2017 and 31 December 2016.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2017

20. 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 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.

21. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 18 August 2017.