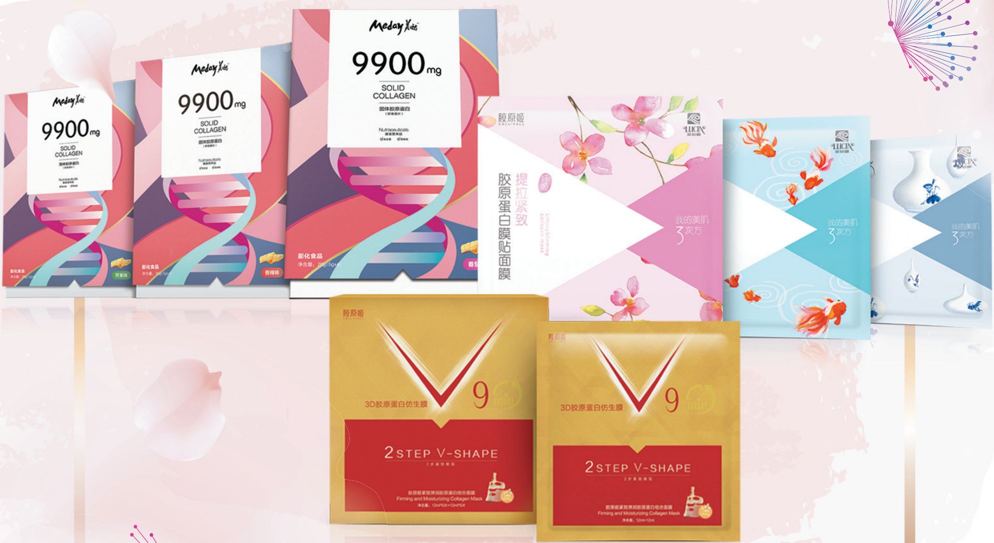
Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 00829



Interim Report 2018

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
Loong & Yeung
Room 1603, 16/F
China Building
29 Queen's Road Central
Hong Kong

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

HONG KONG OFFICE
Unit 2902, Sino Plaza
255–257 Gloucester Road
Causeway Bay
Hong Kong

MAINLAND OFFICE
29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

PRINCIPAL BANKERS
Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
Bank of Communications
China Construction Bank
The Hongkong and Shanghai Banking Corporation

AUDITOR
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
Listing on the Hong Kong Stock Exchange

20 August 2018
Announcement of 2018 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 2018
3,259,276,000 shares

Market capitalization as at 30 June 2018
HK$1,450,377,820

Basic earnings per share for 2018
Half year RMB1.14 cents

ENQUIRIES CONTACT

Wonderful Sky Financial Group Holdings Limited

Email: *shenguan@wsfg.hk*

WEBSITE

www.shenguan.com.cn

KEY FINANCIAL HIGHLIGHTS

FINANCIAL AND OPERATING SUMMARY

	For the six months ended 30 June		
	2018	2017	Change
Revenue (RMB million)	**376.2**	429.9	-12.5%
Profit Attributable to Owners of the Company (RMB million)	**37.2**	33.2	+12.2%
Basic Earnings Per Share (RMB cents)	**1.14**	1.02	+11.8%
Interim Dividend Per Share (HK cents)	**–**	–	N/A
Cash Inflow from Operating Activities (RMB million)	**115.2**	176.3	-34.7%

	1H 2018	FY 2017	1H 2017
Total Assets (RMB million)	**3,080.9**	3,294.0	3,321.5
Inventory Turnover Day – Raw Materials (days)*	**36.8**	24.9	34.1
Inventory Turnover Day – Finished Goods & Work in Progress (days)*	**429.9**	300.8	406.1
Trade Receivables Turnover Day (days)*	**120.4**	92.2	89.9
Trade Payables Turnover Day (days)*	**128.6**	153.7	131.9

* Calculated based on the average value between the beginning of the period and the end of the period.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the period ended 30 June 2018 (the "Period"), the PRC's economic operation maintained a steady upward momentum. Market supply and demand was generally stable, while quality and effectiveness continued to improve. The economy had a good start to high-quality development. According to the data published by the National Bureau of Statistics of the PRC, from January to June 2018, China's gross domestic product grew by 6.8% year-on-year; the total retail sales of consumer goods grew by 9.4% year-on-year; the output of pork, beef, mutton and poultry was 39.95 million tons, up 0.9% year-on-year. The output of pork was 26.14 million tons, representing an increase of 1.4% year-on-year. Adhering to its theme of "new product development, market expansion and quality-oriented growth" proposed in its work plan for 2018, the Group focused on areas including product development, market establishment and team building, as well as product quality, cost and system management, which fostered the overall positive improvement of the Group's production and operation conditions.

BUSINESS REVIEW

Thanks to the joint efforts of its employees, the Group maintained a leading position in the domestic collagen sausage casing market. The Group launched price-off promotions of certain aged sausage casing products during the last two financial years, while the Group's sales were primarily sales of products that are fast-moving inventories and price-off promotions were significantly reduced during the Period. Therefore, although sales volume dropped as compared with that during the first half of 2017 (the "Prior Period"), the average selling price increased. Besides, the Group had taken various measures to control production costs per unit and used its bargaining power of bulk purchases to lower the cost of raw materials over the past years, the effectiveness of which gradually reflected in the cost of inventories determined on the weighted average basis. Both of the above had a positive effect on the Group's gross profit and gross profit margin.

Industrial Layout and Technological Research & Development

The Group is committed to stepping up the development of its collagen technologies, with an aim to establishing the safe, reliable and standardized health industry. The move will also upgrade and transform the collagen industry and proactively promote the application of collagen in the health industry. The Group is striving to research and develop new technologies and new products in various fields covering collagen food products, healthcare products, skincare products and medicinal products, yet it is uncertain whether the research and development of new products will be successful and the products will be launched to the market. Considerable time is required to achieve the desired goals.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan"), a wholly-owned subsidiary of the Company, maintained the titles as the national-grade "Postdoctoral 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研究中心), "Guangxi Enterprise Technology Center" (廣西企業技術中心) and "Guangxi Enterprise Research and Development Center" (廣西企業研發中心), and received financial subsidies from the Department of Finance of Guangxi of the PRC. As at 30 June 2018, 10 professionals, including 6 doctorate degree holders, professors and senior engineers and 4 graduates of master's degrees, were recruited to enhance the Group's technological development and market expansion capabilities.

During the Period, the Group continued to make efforts in planning for development regarding product diversification. "Meday" instant edible solid collagen and "COLL-FULL" collagen membrane facial masks were marketed in 2017, albeit with an early-stage sales contribution during the Period. During the Period, for skincare products, the Group carried out research and development on new products such as collagen-based serums, masks, mask essences and lotions; for food products, the Group developed new products including collagen with rice noodles as well as collagen brown sugar and ginger drinks. Some of these products will be marketed in the fourth quarter.

Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") has been certified by Guangdong provincial authorities for the corporate standards on 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). In addition, Guangdong Victory is also lodging a number of applications for patents, of which the patents for "Artificial Bone Structure" were granted by the National Intellectual Property Administration of the PRC and the Taiwan Intellectual Property Office and "Preparation Method of Low Endotoxin Collagen" was accepted by the National Intellectual Property Administration of the PRC, the Taiwan Intellectual Property Office and the United States Patent and Trademark Office. The new "Artificial Bone" product is being tested for its product technical indicators, while the medical-grade collagen product is being sent to relevant foreign units for trials.

Ferguson (Wuhan) Biotech Company Limited ("Ferguson Wuhan") is putting efforts in the research and development of three types of products, namely health food, general food and special food for medical purposes, including glucosamine chondroitin, lutein soft capsules, glucosamine tablets, methylfolate tablets, calcium and zinc oral liquid, nutrition packs, sports drinks, whey protein powder, balanced nutrition powder, etc. Ferguson Wuhan has made initial achievement in market channel building.

As at 30 June 2018, the Group had the following patents:

	Granted and still effective	Accepted and pending for approval
National Intellectual Property Administration of the PRC	65	11
Taiwan Intellectual Property Office	1	1
United States Patent and Trademark Office	–	1

Collagen Sausage Casings

One of the Group's principal businesses is the manufacture and sale of edible collagen sausage casings, most of which are used for the production of western sausages. Product innovation and diversification by sausage manufacturers continued to create demand for sausage casings of different sizes and fillings.

In order to keep pace with the new trend of the domestic meat product industry, the Group launched new products that can be applied to more types of sausages fillings to cater for the market. These new products are gradually marketed and adopted. At the same time, the Group also made great efforts in enhancing internal management, increasing the level of automation, streamlining production processes and improving efficiency.

With respect to the supply of raw materials, cattle's inner skin is a major raw material for collagen sausage casing production. The supply of cattle's inner skin remained stable over the past few years and such situation is expected to remain unchanged in the coming years. Guangxi Zhiguan Industrial Development Co., Limited ("Guangxi Zhiguan"), one of the Group's substantial cattle inner skin providers, applied for the Food Production Licence under the Measures for the Administration of Food Production Licensing and Food Safety Law of the PRC on a voluntary basis and was granted with such licence, effective until November 2022, by the Wuzhou Bureau for Administrative Examination and Approval, the local issuing authority of the China Food and Drug Administration where Guangxi Zhiguan is located. 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, enhancing the competitiveness of the Group's products in the future.

Quality Control

The Group strictly controls each production step to ensure that its products are of the best quality and comply with all safety requirements. The Group's production and manufacture of collagen sausage casings has passed the certification of ISO9001 Quality Management System, ISO22000 Food Safety Management System, ISO10012 Measurement Management System and ISO14000 Environmental Management System, and has obtained the QS Food Production Permit. The Group has also registered with the U.S. Food and Drug Administration for export of sausage casing products to the United States. In addition, the production of all of the Group's sausage casing products have strictly complied with the PRC's national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are the 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, undertake various food and relevant product testing services and issue officially-recognized testing reports, delivering external sales revenue. 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 medicines 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 established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only for cooperation with enterprises in the PRC, but also with those 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 suppliers in the PRC. The number of domestic customers remained stable.

FINANCIAL ANALYSIS

Revenue

Revenue decreased by approximately 12.5% to approximately RMB376.2 million for the Period from approximately RMB429.9 million for the Prior Period. Although the sales volume of collagen sausage casing decreased, the proportion of sales of aged inventories at a lower price during the Period had declined as compared to the Prior Period, leading to a slight increase in average selling price, which partially offset the impact of the decline in sales volume.

Cost of sales

Cost of sales decreased by approximately 25.6% to approximately RMB238.3 million for the Period from approximately RMB320.1 million for the Prior Period, including the provision and write-off of inventory of approximately RMB10.3 million, as compared to the reversal of approximately RMB1.2 million for the Prior Period. Excluding such items, the cost of sales for the Period decreased by approximately 28.8% as compared to the Prior Period. One of the reasons for the decline in cost of sales goes to the drop in sales volume. In addition to this, the Group has taken various measures to control the unit costs of production as well as utilizing its bargaining power of bulk purchases to reduce the costs of raw materials over the past years, and the effectiveness of which has gradually emerged in terms of the cost of inventories determined on the weighted average basis. The costs of raw materials decreased by approximately 36.5% to approximately RMB81.6 million. In addition, the charges for energy decreased by approximately 24.8% to approximately RMB54.0 million as the Group continued to control energy consumption. The direct labor cost decreased by approximately 31.5% to approximately RMB42.5 million.

Gross profit

Gross profit increased by approximately 25.6% to approximately RMB137.9 million for the Period from approximately RMB109.8 million for the Prior Period. The gross profit margin increased from approximately 25.5% to approximately 36.7% for the Period. The increase in gross profit margin is mainly due to the slight increase in average selling price as well as the decrease in cost of sales.

Other income and gains

Other income and gains decreased by approximately 17.7% to approximately RMB14.7 million for the Period from approximately RMB17.9 million for the Prior Period. There was a gain on change in fair value of a financial asset at fair value through profit or loss of approximately RMB1.6 million recorded during the Prior Period, which was absent for the Period.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 1.0% to approximately RMB19.9 million for the Period from approximately RMB20.1 million for the Prior Period. Selling and distribution expenses as a percentage of revenue increased to approximately 5.3% for the Period from approximately 4.7% for the Prior Period.

Administrative expenses

Administrative expenses increased by approximately 18.1% to approximately RMB85.5 million for the Period from approximately RMB72.4 million for the Prior Period. During the Period, the Group made impairment on some of the equipment in relatively obsolete condition and an impairment of approximately RMB5.2 million was recorded for equipment accordingly. No similar impairment was recorded during 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 RMB15.2 million. The effect of such amortization expense on the net profit of the Group was approximately RMB11.6 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 35.6% to approximately RMB2.8 million for the Period from approximately RMB4.4 million for the Prior Period. For information about the bank borrowings of the Group, please refer to the section headed "Cash and bank borrowings".

Share of loss of an associate

The share of loss of an associate for the Period amounted to approximately RMB3.0 million, which was mainly due to the share of loss of Ferguson Wuhan during the Period.

Income tax expenses

Income tax expenses were approximately RMB8.8 million for the Period, as compared to approximately RMB5.8 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 were approximately 18.8% and approximately 20.9% of profit before tax, respectively for the Prior Period and the Period.

Loss attributable to non-controlling interests

The loss attributable to non-controlling interests for the Period was approximately RMB4.5 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, profit attributable to owners of the Company increased by approximately 12.2% to approximately RMB37.2 million for the Period from approximately RMB33.2 million for the Prior Period. The Group's selling and distribution expenses and administrative expenses for the exploration of new products, including facial masks and instant edible solid collagen, for the Period and the Prior Period totaled RMB10.3 million and RMB20.7 million, respectively.

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 2018, the cash and cash equivalents together with pledged deposits amounted to approximately RMB573.8 million, representing a decrease of approximately RMB97.4 million from the end of 2017. Among these balances, approximately 94.7% was denominated in Renminbi, and the remaining 5.3% was denominated in Hong Kong dollars, Singapore dollars and U.S. dollars.

As at 30 June 2018, the total bank borrowings of the Group amounted to approximately RMB81.1 million, representing a decrease of approximately RMB109.6 million (as at 31 December 2017: approximately RMB190.7 million), and all the bank borrowings were wholly repayable within one year. Of which, the total bank borrowings denominated in Renminbi were approximately RMB40.0 million, while the total bank borrowings denominated in Hong Kong dollars were HK$48.7 million (translated to approximately RMB41.1 million).

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB492.7 million as at 30 June 2018, representing an increase of approximately RMB12.2 million as compared to that at the end of 2017. The debt-to-equity ratio was 2.9% as at 30 June 2018 (as at 31 December 2017: 6.7%). 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 RMB115.2 million was generated from operating activities, while investing activities and financing activities utilized approximately RMB48.9 million and RMB207.8 million, respectively. The net cash outflow from investment activities was mainly attributable to the cash outflow for increase in non-pledged time deposits with original maturity of over three months and purchase of property, plant and equipment, which was partially offset by the cash inflow from decrease in pledged deposits. The net cash outflow from financing activities was mainly attributable to the combined effects of the repayment of bank borrowings and the new bank borrowings and the payment of 2017 final dividend.

Exposure to exchange risks

The Group mainly operates in the PRC 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 RMB10.4 million, which was mainly used for the acquisition of property, plant and equipment, and the capital commitments as at 30 June 2018 amounted to approximately RMB106.9 million, which were mainly related to the improvement and upgrades of production facilities.

The estimated capital expenditure of the Group for 2018 amounted to approximately RMB100.0 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 2018, pledged bank deposits amounted to approximately RMB105.0 million in total.

Contingent liabilities

As at 30 June 2018 and up to the date of this report, the Group was not aware of any material contingent liabilities.

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

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

EVENTS AFTER THE PERIOD

There were no important events affecting the Group that have occurred since 30 June 2018.

HUMAN RESOURCES

As at 30 June 2018, the Group hired a total of approximately 2,600 contract employees (as at 30 June 2017: 2,900). During the Period, the total remuneration and employees' benefit expenses charged to profit or loss were approximately RMB76.6 million (first half of 2017: approximately RMB87.3 million). In order to attract and retain high quality talents to ensure smooth business operation and to cope with the need of the Group's continuing expansion, the Group offers competitive remuneration packages with reference to the market conditions as well as individual qualifications and experience.

PROSPECTS AND STRATEGIES

The global economy steadily gained traction this year, yet it was left under a cloud of uncertainty following the rise of protectionism in the United States which resulted in trade friction between the PRC and the United States. Looking ahead to the second half of 2018, the Company will continue to take a wait-and-see approach towards the global economic conditions amid the looming prospect of U.S.-China trade friction. The PRC will adjust its national strategies, focusing on promoting domestic consumption as the economic basis and delivering the message of "the pressing needs of combining accelerated structural adjustment with continuous expansion of domestic demand". Industrial structure adjustment addresses quality issues of economic development from the supply side, while the expansion of domestic demand addresses quantity issues of economic development from the demand side. On the consumption front, the PRC is more attentive to expand the consumption of fields that help individuals achieve a happy life and satisfy basic needs, including consumptions in high-quality daily lifestyle products, happiness industries and organic farm products.

Moreover, the PRC has implemented the “Belt and Road” strategy. The “supply-side reform” helps push the traditional industries forward, whereas the “innovation strategy” promotes the development of the emerging industries, creating room and opportunities for development for enterprises. The Thirteenth Five-Year Plan previously promulgated by the Chinese government and the relevant departments has added the collagen biotechnology industry into the list of strategic emerging industries with national key support. Leveraging the national expansion of domestic demand and consumption together with the supports from innovative industries, the Group, being the nationally recognized high and new tech enterprise manufacturing collagen products, will continue to maintain its market leading position in the PRC in terms of sales of products and expand its production capacity to meet customers’ needs. In the meantime, the Group will develop collagen-based products underpinned by collagen technology in the light of the Thirteenth Five-Year Plan. In addition, with the great health industry as the key development area, the Group will steadily push forward the construction of industrial chain and actively study the application of collagen technology in new fields, aiming to build itself into a world-class base for collagen research and development and application as well as supplier of collagen raw materials.

Responding to external challenges such as the intensifying competition in collagen sausage casings and higher requirements on product applicability and quality, the Group will accord priority to “new product development, market expansion and quality-oriented growth” in its plan for 2018 and increase efforts in promoting industrial transformation. In line with the product development paces of customers, the Group will press ahead with new product development to penetrate into new markets. In addition, by improving process technologies, enhancing the level of mechanization, implementing a strict quality standard and standardizing operations, the Group will ensure consistent and up-to-standard product quality under a well-established model for quality control procedures to secure its leadership in collagen sausage casings.

For collagen skincare products, in order to speed up the development and production processes, the Group will improve the “collagen product family” by introducing a variety of facial masks and collagen extract series in an effort to diversify the product portfolio and sharpen the competitiveness. For collagen food products, the Group will continue to improve the standards for new products such as instant edible solid collagen and collagen with rice noodles. Efforts will also be taken to bolster up promotional and marketing activities for achieving mass production and sales volume soon.

The Group has been active in growing its collagen medical material segment. Its “Type III Wound Dressing” and “Type III In Vivo Hemostatic Cotton”, which have passed clinical trials, are in the process of application for production permit. We are also accelerating the research and development of artificial bone and are conducting tests on technical indicators of the product and applying for its clinical trial. In addition, the Wuzhou sterile production facility of the newly established Wuzhou Victory Biotech Co., Ltd. for collagen medical materials, with its fitting-out completed, is in the process of application for relevant certificates and permits to target commencing production in the fourth quarter of 2018.

The Group will continue to improve the group management mechanism and structure. We will upgrade and incorporate strategy origination, investment decisions, financial control, central procurement and marketing into a groupwide framework for higher management efficiency and performance. Team-building and performance assessment will be deepened to improve effectiveness of workflows. In accordance with the upgraded post setting, performance assessment and salary system, we will shore up training and introduce a survival-of-the-fittest mechanism in a drive to improve the competency of managers at lower ranks.

The Group believes that the initiatives above will contribute to operational and financial soundness, sustainable business development and wider application of collagen technology, thereby securing its leadership in the industry and delivering attractive return to its shareholders in the long run.

OTHER INFORMATION

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 2018.

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 directors and senior management of the Company since the disclosure made in the 2017 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 an independent non-executive director of the Company) was appointed as an independent non-executive director of Intron Technology Holdings Limited, a listed public company in Hong Kong (stock code: 1760), on 22 June 2018.

2. Mr. Ng Yuk Yeung (who is the company secretary of the Company) was appointed as an independent non-executive director of Dowway Holdings Limited, a listed public company in Hong Kong (stock code: 8403), on 16 May 2018.

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 2018, 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 are taken or deemed to have under such provisions of the SFO), or which have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules are as follows:

1. Interests and Short Positions in the Shares of the Company (the "Shares")

Name of Directors	Capacity/Nature of interests	Number of Shares	Approximate percentage of issued share capital of the Company
Ms. Zhou Yaxian ("Ms. Zhou")	Interest of controlled corporation (Note 2)	2,240,822,000 (L)	68.75
	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

2. Long Positions in the Ordinary Shares of Associated Corporations

Name of Directors	Name of the associated corporation	Capacity/Nature of interests	Number of Shares held	Approximate percentage of interest in the 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 owned 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 2018, 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 were 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 were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were 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 2018, as far as is known to the Directors, the following persons (not being the Directors or chief executives 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 Positions 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	1,936,434,000 (L)	59.41%
Xian Sheng	Beneficial owner	248,540,000 (L)	7.63%
Glories Site	Interest of controlled corporation (Note 2)	1,936,434,000 (L)	59.41%
Hong Kong Shenguan	Interest of controlled corporation (Note 3)	2,184,974,000 (L)	67.04%
	Beneficial owner	55,848,000 (L)	1.71%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse (Note 4)	2,241,022,000 (L)	68.76%

Notes:

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

2. Glories Site holds approximately 65.45% interest in Rich Top Future. Therefore, Glories Site is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future for the purpose of the SFO.

3. Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Hong Kong Shenguan is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO.

4. Ms. Zhou holds 100% interest in Hong Kong Shenguan which 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 2018, the Directors were not aware of any persons (other than the Directors or chief executives 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. 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 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 interests 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 (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the members of senior management of the Group.

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

After the end of the Period, on 25 July 2018, Ms. Zhou Yaxian purchased 184,000 Shares via her wholly-owned company, Xian Sheng Limited, on the Stock Exchange which was in breach of Rule A.3(a)(ii) of the Model Code. The total purchase price of this transaction was approximately HK$81,000 (184,000 Shares times an average purchase price of HK$0.43924 per Share). As Ms. Zhou was on a business trip, there was some miscommunication and Ms. Zhou inadvertently confirmed with the broker to place such order before obtaining clearance from the designated officer of the Board. Ms. Zhou confirmed that the breach was due to her inadvertence, in particular in relation to the commencement of blackout period. For clarity purpose, such purchase was effected at a time when there was no unpublished inside information.

In order to prevent potential breaches in the future, the Board has recommended the Company to review the reporting and monitoring procedures for dealing of shares of the Company under the Model Code, as well as enhancing its compliance measures and internal control procedures. The Board will also implement the following actions and procedures in order to minimize the chance of breach in future:

(i) More training in respect of compliance with the Listing Rules and the Model Code will be provided to the Directors, senior management and company secretary of the Company on a regular basis;

(ii) Re-circulation of and enhancement of internal communication guideline to the Directors, company secretary, and staff of the Company regarding the notification procedures and restrictions against dealing with shares of the Company during the blackout period under the Model Code.

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 professional accounting qualification and relevant accounting experience, is the chairman of the audit committee.

The audit committee has reviewed the unaudited condensed consolidated 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 report.

The unaudited condensed consolidated 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, 20 August 2018

EY 安永

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 25 to 50, which comprises the condensed consolidated statement of financial position of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries as at 30 June 2018 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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 2018 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
20 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
REVENUE	4	**376,194**	429,917
Cost of sales		**(238,270)**	(320,093)
Gross profit		**137,924**	109,824
Other income and gains, net	5	**14,745**	17,924
Selling and distribution expenses		**(19,924)**	(20,133)
Administrative expenses		**(85,461)**	(72,362)
Finance costs	6	**(2,805)**	(4,356)
Share of loss of an associate		**(2,957)**	–
PROFIT BEFORE TAX	7	**41,522**	30,897
Income tax expense	8	**(8,800)**	(5,812)
PROFIT FOR THE PERIOD		**32,722**	25,085
OTHER COMPREHENSIVE INCOME			
Other comprehensive income may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(545)**	(1,053)
NET OTHER COMPREHENSIVE INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(545)**	(1,053)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**32,177**	24,032

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Profit attributable to:			
Owners of the Company		**37,248**	33,194
Non-controlling interests		**(4,526)**	(8,109)
		32,722	25,085
Total comprehensive income attributable to:			
Owners of the Company		**36,703**	32,141
Non-controlling interests		**(4,526)**	(8,109)
		32,177	24,032
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10		
Basic and diluted (RMB cents per share)		**1.14**	1.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,230,687**	1,273,487
Investment properties		**7,594**	7,594
Prepaid land lease payments		**123,607**	125,230
Goodwill		**22,760**	22,760
Other intangible assets		**113,662**	139,514
Investment in an associate		**65,470**	68,426
Deferred tax assets		**26,892**	28,717
Long term prepayments		**7,899**	6,909
Time deposit		**100,000**	–
Total non-current assets		**1,698,571**	1,672,637
CURRENT ASSETS			
Inventories		**643,912**	574,598
Trade and bills receivables	12	**202,514**	293,913
Prepayments, deposits and other receivables		**62,067**	81,606
Pledged deposits	17	**105,000**	214,300
Cash and cash equivalents		**368,794**	456,902
Total current assets		**1,382,287**	1,621,319
CURRENT LIABILITIES			
Trade and bills payables	13	**66,642**	83,908
Other payables and accruals		**67,448**	84,767
Interest-bearing bank and other borrowings		**81,059**	190,709
Tax payable		**7,126**	4,951
Total current liabilities		**222,275**	364,335
NET CURRENT ASSETS		**1,160,012**	1,256,984
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,858,583**	2,929,621

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Note	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**30,863**	32,605
Deferred tax liabilities		**42,081**	48,597
Total non-current liabilities		**72,944**	81,202
Net assets		**2,785,639**	2,848,419
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	**28,060**	28,060
Reserves		**2,740,344**	2,799,360
		2,768,404	2,827,420
Non-controlling interests		**17,235**	20,999
Total equity		**2,785,639**	2,848,419

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	Note	Attributable to owners of the Company										
		Issued capital (Unaudited) RMB'000	Share premium account (Unaudited) RMB'000	Contributed surplus (Unaudited) RMB'000	Reserve funds (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Other reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2017 (Audited)		28,060	393,120	59	369,723	4,758	(107,852)	(264,343)	2,400,172	2,823,697	71,579	2,895,276
Profit for the period		–	–	–	–	–	–	–	33,194	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	32,141	(8,109)	24,032
Capital contribution to a subsidiary		–	–	–	–	–	–	–	–	–	702	702
Acquisition of non-controlling interests		–	–	–	–	18,744	–	–	–	18,744	(38,954)	(20,210)
Final 2016 dividend and special dividend	9	–	(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	2,788,253	25,218	2,813,471

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Note	Attributable to owners of the Company										
		Issued capital (Unaudited) RMB'000	Share premium account (Unaudited) RMB'000	Contributed surplus (Unaudited) RMB'000	Reserve funds (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Other reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2018 (Audited)		28,060	306,791*	59*	369,723*	23,502*	(105,338)*	(264,343)*	2,468,966*	2,827,420	20,999	2,848,419
Profit for the period		-	-	-	-	-	-	-	37,248	37,248	(4,526)	32,722
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations		-	-	-	-	-	(545)	-	-	(545)	-	(545)
Total comprehensive income for the period		-	-	-	-	-	(545)	-	37,248	36,703	(4,526)	32,177
Capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	762	762
Final 2017 dividend and special dividend	9	-	(95,719)	-	-	-	-	-	-	(95,719)	-	(95,719)
Transfer from retained profits		-	-	-	3,428	-	-	-	(3,428)	-	-	-
At 30 June 2018 (Unaudited)		28,060	211,072*	59*	373,151*	23,502*	(105,883)*	(264,343)*	2,502,786*	2,768,404	17,235	2,785,639

* These reserve accounts comprise the consolidated reserves of RMB2,740,344,000 (31 December 2017: RMB2,799,360,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	**98,610**	135,867
Interest received	**27,924**	48,477
PRC corporate income tax paid	**(11,316)**	(8,050)
Net cash flows from operating activities	**115,218**	176,294
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(10,178)**	(24,589)
Increase in long-term prepayment	**–**	(32,057)
Net changes to financial assets at fair value through profit or loss	**4,881**	149
Decrease in pledged deposits	**109,300**	247,700
Increase in non-pledged time deposits with original maturity of over three months when acquired	**(152,883)**	(30,000)
Net cash flows (used in)/from investing activities	**(48,880)**	161,203
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	**10,000**	110,000
Repayment of bank loans and other borrowings	**(120,000)**	(160,000)
Dividends paid	**(95,719)**	(86,329)
Acquisition of non-controlling interests	**–**	(20,540)
Other cash flows used in financing activities	**(2,077)**	(5,459)
Net cash flows used in financing activities	**(207,796)**	(162,328)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(141,458)**	175,169
Cash and cash equivalents at beginning of period	**376,902**	119,016
Effect of foreign exchange rate changes, net	**467**	(695)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**235,911**	293,490
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**135,042**	84,490
Non-pledged time deposits with original maturity of less than three months when acquired	**90,869**	209,000
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	**225,911**	293,490
Non-pledged time deposits with original maturity of over three months when acquired	**242,883**	30,000
Less: Non-pledged time deposits with original maturity of over one year when acquired	**(100,000)**	–
Cash and cash equivalents as stated in the consolidated statement of financial position	**368,794**	323,490

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 2017.

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 2017 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 following revised HKFRSs for the first time for the current period financial information, as further explained below:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfer of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to *HKFRS 2014–2016 Cycle*	*Amendments to HKFRS 1 and HKAS 28*

Except for HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*, which nature and effect of the adoption are disclosed as below, the adoption of the above new and revised HKFRSs has had no significant financial effect on this unaudited condensed interim financial information.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings as at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group's principal activities consist of the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, food products, skin care and health care products and bioactive collagen products (the "Group Products"). The Group's contracts with customers for the sale of the Group Products generally include one performance obligation. The Group has concluded that revenue from sale of the Group Products should be recognised at the point in time when control of the asset is transferred to the customer. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

Prior to the adoption of HKFRS 15, the Group recognised revenue from the sale of goods measured at fair value of the consideration received or receivable, net of allowances, trade discounts and/or volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty was resolved.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

HKFRS 15 *Revenue from Contracts with Customers* (Continued)

Under HKFRS 15, a transaction price is considered variable if a customer is provided with trade discounts or right of return. The Group estimates the amount of consideration to which it will be entitled in the sales of the Group Products and the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amount of allowances, trade discounts and right to return as this method better predicts the amount of variable consideration to which the Group will be entitled.

The Group has assessed that the adoption of HKFRS 15 did not materially affect how the Group recognised revenue and cost of sales under HKAS 18 when the customers have a right to allowance, trade discounts and volume rebates. Accordingly, except for the reclassification effect below, the adoption of HKFRS 15 does not have material financial impact on the Group's consolidated interim financial information.

Reclassifications were made as at 30 June 2018 to be consistent with the terminology used under HKFRS 15, advances received from customers of RMB5,485,000 (31 December 2017: RMB5,439,000) were reclassified from "advances from customers" to "contract liabilities" under "Other payables and accruals".

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied HKFRS 9 retrospectively in accordance with the transition requirements, with the initial application date of 1 January 2018. The Group has elected not to adjust the comparative information for the period beginning 1 January 2018, which the comparative information was prepared under classification and measurement requirements of HKAS 39.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

HKFRS 9 *Financial Instruments* (Continued)

Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to impairment assessment under HKFRS 9.

- Financial assets at FVPL comprise derivative instruments and unquoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

HKFRS 9 *Financial Instruments* (Continued)

Classification and measurement (Continued)

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

Impairment

HKFRS 9 requires an impairment on trade and bills receivables, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its deposits and other receivables and trade receivables, respectively. The Group performed a detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is 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.

Geographical information is not presented since over 90% of the Group's revenue is derived from external customers based in the PRC and over 90% of the Group's non-current assets are located in the PRC. Accordingly, in the opinion of directors of the Company, the presentation of geographical information would provide no additional useful information to the users of this interim financial information.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sale of goods	**376,082**	429,820
Service income	**112**	97
	376,194	429,917

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Bank interest income	**4,872**	10,709
Gain on disposal of financial assets at fair value through profit or loss	**4,881**	149
Government grants*	**4,320**	4,520
Sales of dried meat products	**329**	500
Change in fair value of a financial asset at fair value through profit or loss	**–**	1,594
Others	**343**	452
	14,745	17,924

* 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 2018 (2017: Nil).

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank and other loans	**2,805**	6,800
Less: Government grant*	**–**	(2,444)
	2,805	4,356

* A government grant had been received in respect of interest expenses incurred for the purchase of raw materials. The government grant received was deducted against related interest expenses when conditions of government grant were fulfilled. There were no unfulfilled conditions or contingencies relating to this grant as at 30 June 2017.

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**47,883**	48,983
Less: Amount capitalised	**(9,527)**	(9,270)
	38,356	39,713
Amortisation of prepaid land lease payments	**1,623**	1,680
Amortisation of other intangible assets	**25,852**	25,852
Reversal of impairment of trade receivables	**(728)**	–
Loss on disposal of items of property, plant and equipment	**296**	35
Write-off of items of property, plant and equipment	**5,219**	–
Write-off of inventories	**3,629**	–
Provision/(reversal of provision) against obsolete and slow-moving inventories	**6,629**	(1,185)
Foreign exchange differences, net	**531**	1,326

8. INCOME TAX

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

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

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

Wuzhou Shenguan Protein Casing Co., Ltd. and Wuzhou Shensheng Collagen Products Co., Ltd., being the Company's wholly-owned subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are subject to the region's preferential corporate income tax rate of 15% as set out in 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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax charge for the period		
– PRC	**13,093**	4,660
– Hong Kong	**401**	990
Deferred tax	**(4,694)**	162
Total tax charge for the period	**8,800**	5,812

9. DIVIDENDS

	Six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Final dividend declared and paid for 2017 – HK2.0 cents (2016: HK2.0 cents) per ordinary share	**53,177**	57,553
Special dividend declared and paid for 2017 – HK1.6 cents (2016: HK1.0 cent) per ordinary share	**42,542**	28,776
	95,719	86,329

The directors of the Company did not propose any interim dividend in respect of the reporting period (2017: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amount for the period ended 30 June 2018 is based on the profit for the period attributable to owners of the Company of RMB37,248,000 (2017: RMB33,194,000) and the weighted average number of ordinary shares of 3,259,276,000 (2017: 3,259,276,000) in issue during the period ended 30 June 2018.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2018 (2017: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group incurred RMB10,375,000 (2017: RMB9,002,000) 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 RMB296,000 (2017: RMB35,000).

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 ageing 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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 3 months	**150,783**	239,776
3 to 4 months	**21,948**	24,515
Over 4 months	**29,783**	29,622
	202,514	293,913

13. TRADE AND BILLS PAYABLES

An ageing 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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 1 month	**33,992**	26,327
1 to 2 months	**14,183**	4,977
2 to 3 months	**2,379**	13,116
Over 3 months	**16,088**	39,488
	66,642	83,908

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

14. SHARE CAPITAL

Shares

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'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 2017: 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

During the six months ended 30 June 2018, no ordinary shares were repurchased or cancelled by the Company (31 December 2017: Nil).

15. COMMITMENTS

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	**104,317**	103,417
Plant and machinery	**2,616**	3,035
	106,933	106,452

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (31 December 2017: Nil).

17. PLEDGE OF ASSETS

At the end of the reporting period, cash in bank of RMB45,000,000 (31 December 2017: RMB50,000,000) and RMB60,000,000 (31 December 2017: RMB60,000,000) were pledged to secure bank borrowings amounting to RMB41,059,000 (31 December 2017: RMB130,709,000) and discounted bills amounting to RMB40,000,000 (31 December 2017: RMB60,000,000), 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:

	Notes	Six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Company controlled by a director of the Company:			
Continuing connected transactions:			
Sales of products	(i)	**1,924**	1,648
Purchases of cattle hides	(ii)	**37,281**	27,022
Rent of production premises	(ii)	**1,129**	564
Administrative support and liaising services	(ii)	**72**	88
Companies controlled by spouse of a director of the Company:			
Continuing connected transactions:			
Purchases of packing materials	(ii)	**15,139**	12,473

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.

18. RELATED PARTY DISCLOSURES (Continued)

(b) Balance with a related party

As at 30 June 2018, included in "Trade and bills receivables" represented an amount of RMB776,000 (31 December 2017: Nil)) 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 2018, included in "Trade and bills payables" represented amounts of RMB17,721,000 of trade payables (31 December 2017: RMB5,379,000). 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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,887**	2,883
Performance related bonuses	**–**	343
Retirement benefit contributions	**18**	4
Total compensation paid/payable to key management personnel	**2,905**	3,230

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.

The Group did not have any financial assets and financial liabilities measured at fair value as at 30 June 2018 and 31 December 2017.

20. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 20 August 2018.