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SHENGUAN HOLDINGS (GROUP) LIMITED

神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

INTERIM RESULTS 2010 ANNOUNCEMENT

RESULTS HIGHLIGHTS

- Achieved revenue of RMB475.3 million, increased by 49.9% year over year
- Achieved profit attributable to owners of the Company of RMB222.3 million, increased by 72.2% year over year
- Resolved the payment of an interim dividend of HK6.0 cents per share
- Total number of production lines increased from 116 at the end of 2009 to 148 at the end of June 2010
- Proceeds were applied in accordance with the prospectus of the Company dated 30 September 2009

The board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited (the "Company") is pleased to announce the consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010 (the "Period"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. The 2010 consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 30 August 2010.

During the Period, the demand for the products of the Group maintained healthy growth with breakthrough results. The revenue from the sales of the collagen sausage casings soared 49.9% to RMB475.3 million as compared to the corresponding period in 2009. During the Period, profitability of the Group was improved. The profit attributable to owners of the Company was RMB222.3 million throughout the Period, representing a growth of 72.2% over the same period in 2009. The basic earnings per share attributable to owners of the Company was RMB13.39 cents. The Board resolved the payment of an interim dividend of HK6.0 cents per share. For reference purpose, the closing exchange rate for Renminbi to Hong Kong Dollars as announced by the People's Bank of China at the announcement date is RMB0.87447 to HK\$1.00. Accordingly, the amount of interim dividend per share equivalent to RMB5.2468 cents, representing a dividend payout ratio of 39.2%.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 (Unaudited) RMB'000	2009 (Audited) RMB'000
REVENUE	4	475,348	317,198
Cost of sales		(176,596)	(120,774)
Gross profit		298,752	196,424
Other income and gains	4	17,579	3,921
Selling and distribution costs		(4,106)	(5,196)
Administrative expenses		(25,395)	(28,061)
Other expenses		–	(86)
Finance costs	5	(2,557)	(4,211)
PROFIT BEFORE TAX	6	284,273	162,791
Income tax expense	7	(54,833)	(14,544)
PROFIT FOR THE PERIOD		229,440	148,247
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations		(8,376)	31
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		(8,376)	31
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		221,064	148,278
Profit attributable to:			
Owners of the Company		222,258	129,035
Non-controlling interests		7,182	19,212
		229,440	148,247
Total comprehensive income attributable to:			
Owners of the Company		213,882	129,066
Non-controlling interests		7,182	19,212
		221,064	148,278
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	9		
Basic (RMB cents per share)		13.39	N/A
Diluted (RMB cents per share)		13.37	N/A

Details of dividends are disclosed in note 8 to this announcement.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	<i>Notes</i>	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		612,598	470,477
Prepaid land lease payments		33,234	31,786
Patent		1,573	2,003
Deferred tax assets		9,329	13,354
Long term prepayments		40,362	43,520
		<hr/>	<hr/>
Total non-current assets		697,096	561,140
CURRENT ASSETS			
Inventories		110,397	46,862
Trade and bills receivables	10	81,142	77,996
Prepayments, deposits and other receivables		65,099	37,765
Tax recoverable		1,168	1,168
Cash and cash equivalents		963,977	1,027,862
		<hr/>	<hr/>
Total current assets		1,221,783	1,191,653
CURRENT LIABILITIES			
Trade payables	11	17,335	24,227
Other payables and accruals		77,007	105,578
Tax payable		12,510	19,808
		<hr/>	<hr/>
Total current liabilities		106,852	149,613
NET CURRENT ASSETS		1,114,931	1,042,040
TOTAL ASSETS LESS CURRENT LIABILITIES		1,812,027	1,603,180
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		114,900	74,900
Deferred income		13,986	11,171
Deferred tax liabilities		11,303	1,091
		<hr/>	<hr/>
Total non-current liabilities		140,189	87,162
Net assets		1,671,838	1,516,018

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
EQUITY		
Equity attributable to owners of the Company		
Issued capital	14,624	14,624
Reserves	<u>1,630,655</u>	<u>1,482,017</u>
	1,645,279	1,496,641
Non-controlling interests	<u>26,559</u>	<u>19,377</u>
Total equity	<u>1,671,838</u>	<u>1,516,018</u>

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the “Company”) was incorporated in the Cayman Islands on 24 February 2009 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture and sale of edible collagen sausage casings products.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

The accounting policies and method of computation adopted in the preparation of this unaudited condensed interim financial information are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2009 and in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs, and Interpretations) issued by the HKICPA, except that the Group has in the current period applied, for the first time, the following new and revised HKFRSs:

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

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

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

The adoption of these new interpretations and amendments has had no significant financial effect on this unaudited condensed interim financial information and there have been no significant changes to the accounting policies applied in this unaudited condensed interim financial information, except for the following revised standards which the Group applies from 1 January 2010 prospectively:

(a) HKFRS 3 (Revised) Business Combinations

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

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

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

3. OPERATING SEGMENT INFORMATION

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

5. FINANCE COSTS

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

6. PROFIT BEFORE TAX

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

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

7. INCOME TAX

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

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

8. DIVIDENDS

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

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

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

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

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

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

10. TRADE AND BILLS RECEIVABLES

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

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

11. TRADE PAYABLES

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

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

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

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

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

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

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

PRODUCT MIX

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

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

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

SUPPLY OF RAW MATERIALS

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

PRODUCTION SCALE

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

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

TECHNOLOGICAL RESEARCH AND DEVELOPMENT

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

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

CUSTOMER RELATIONSHIP

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

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

FINANCIAL ANALYSIS

Revenue

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

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

Income tax expenses

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

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

Profit attributable to non-controlling interests

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

Profit attributable to owners of the Company

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

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank borrowings

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

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

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

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

Cash flow

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

Exchange risk exposure

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

Capital expenditure

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

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

Pledge of assets

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

Use of proceeds

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

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

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

Contingent liabilities

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

Human resources

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

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

PROSPECTS

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

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

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

OTHER INFORMATION

Interim Dividends

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

Closure of register of members

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

Purchase, redemption or sale of listed securities of the Company

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

Acquisitions, Disposals and Significant Investment

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

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

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

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”)

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

Code on Corporate Governance Practices

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

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

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

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

EVENTS AFTER THE PERIOD

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

Audit committee

The audit committee of the Company had reviewed the consolidated interim results of the Company for the six months ended 30 June 2010 and considered that the interim results had complied with all applicable accounting standards and the Listing Rules.

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

Hong Kong, 30 August 2010

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