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## **Web Proof Information Pack of**



## **Shenguan Holdings (Group) Limited** **神冠控股(集團)有限公司**

*(incorporated in the Cayman Islands with limited liability)*

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## SUMMARY

### OVERVIEW

We were the largest manufacturer of edible collagen sausage casing products in the PRC from 2006 to 2008, according to the ranking published by China Meat Association (中國肉類協會) <sup>(Note)</sup>. We trade under our brand name “Shenguan” (「神冠」) and our key production technologies in relation to edible collagen sausage casings have been registered as patents with the SIPO. We are the first company to obtain such patent registrations in the PRC. We are also accredited with ISO9001: 2000 Quality Management System and HACCP Standards, and have obtained FDA registration for the export of our products to the United States.

We are principally engaged in the manufacture and sale of edible collagen sausage casing products in the PRC. To maintain our market leading position in the PRC, we are also committed to the research and development of our products and manufacturing processes. As at the Latest Practicable Date, we had 106 production lines in operation at our two production bases in Wuzhou with an aggregate annual production capacity of approximately 2,417 million meters of collagen sausage casings. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our revenue amounted to RMB178.3 million, RMB259.3 million, RMB454.1 million and RMB317.2 million, respectively.

Our products can generally be classified into two main categories, namely Western-style sausage casing and Chinese-style sausage casing. Set out below is a breakdown of our sales by product categories during the Track Record Period:

#### *Revenue by Product Categories*

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Western-style collagen sausage casing	122,578	68.8	198,791	76.7	395,511	87.1	170,087	87.5	291,673	92.0
Chinese-style collagen sausage casing	55,701	31.2	60,500	23.3	58,542	12.9	24,382	12.5	25,525	8.0
Total	178,279	100.0	259,291	100.0	454,053	100.0	194,469	100.0	317,198	100.0

We have established our leading market position in our major market, the PRC, through the development of a comprehensive range of edible collagen sausage casing products, the expansion of our production capacities, the innovation of technologies and the continuous improvement in the quality of our products. Revenue generated in the PRC accounted for 92.6%, 90.6%, 95.1% and 95.1% of our total revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. Our major customers in the PRC are medium to large scale sausage manufacturers. We also generate sales to overseas markets including the U.S., Malaysia and South America.

*Note:* According to China Meat Association (中國肉類協會), the ranking is based on its set of criteria including, but not limited to, total assets, revenue, market share and market reputation.

## SUMMARY

We have achieved rapid business growth during the Track Record Period. Our profit before tax increased from RMB86.1 million for the year ended 31 December 2006 to RMB213.6 million for the year ended 31 December 2008, representing a CAGR of approximately 57.5%. We were named by Forbes Magazine, an international financial periodical, as one of the top 100 “China Up and Comers 2009” (2009 福布斯最具潛力中小企業(中國)).

### OUR COMPETITIVE STRENGTHS

We consider our principal competitive strengths to be the following:

- (i) we are well-positioned to benefit from the growth of the processed meat product industry in the PRC;
- (ii) we have successfully developed and possess patented production technologies and will continue to improve and maintain our production technologies at advanced level;
- (iii) we have a very strong position in the collagen sausage casing industry in the PRC, and our brand name is well recognized as a source of high quality products by our target clients;
- (iv) we have a strong relationship with our customers including reputable manufacturers of sausages and processed meat products in the PRC;
- (v) we have adopted stringent quality and food safety controls for our collagen sausage casing products; and
- (vi) we have an experienced and competent management team with proven ability to deliver strong performance.

### OUR BUSINESS STRATEGIES

We plan to aggressively exploit the growth in the PRC’s processed meat market by pursuing the following business strategies:

- (i) strengthen our leading position in the PRC’s rapidly growing collagen sausage casing market and increase our market share;
- (ii) leverage our patented technologies and existing production capacity to develop new products, and pursue higher cost efficiency on a larger scale;
- (iii) strengthen our existing customer base and develop new markets globally; and
- (iv) further enhance our cost structure and operational efficiency.

## SUMMARY

### SUMMARY HISTORICAL FINANCIAL INFORMATION

Our financial information included in this document has been prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRS. The following tables provide a summary of combined financial data about our Company. We have derived the combined financial data for each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 from our audited combined financial statements set forth in the Accountants’ Report in Appendix I to this document. The summary combined financial data should be read together with, and is qualified in its entirety by reference to, these combined financial statements, including the related notes.

#### Combined statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
<i>(Amount in RMB’000)</i>					
REVENUE	178,279	259,291	454,053	194,469	317,198
Cost of sales	(75,678)	(123,082)	(203,971)	(84,762)	(120,774)
Gross profit	102,601	136,209	250,082	109,707	196,424
Other income and gains	2,579	4,747	3,882	1,943	3,921
Selling and distribution costs	(4,579)	(5,740)	(7,153)	(3,410)	(5,196)
Administrative expenses	(12,952)	(17,550)	(23,109)	(11,220)	(28,061)
Other expenses	(386)	(1,603)	(1,240)	(49)	(86)
Finance costs	(1,138)	(1,074)	(8,836)	(4,112)	(4,211)
PROFIT BEFORE TAX	86,125	114,989	213,626	92,859	162,791
Tax	2,136	13,647	(16,812)	(6,855)	(14,544)
PROFIT FOR THE YEAR/PERIOD	88,261	128,636	196,814	86,004	148,247
Other comprehensive income	–	–	–	–	31
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	88,261	128,636	196,814	86,004	148,278
Attributable to:					
Equity holders of our Company	84,817	120,932	172,853	77,529	129,066
Non-controlling interests	3,444	7,704	23,961	8,475	19,212
	88,261	128,636	196,814	86,004	148,278

## SUMMARY

### Summary statements of financial position data

	At 31 December			At 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Non-current assets	139,399	207,179	271,298	411,780
Current assets	94,053	129,512	194,609	433,822
Current liabilities	51,714	79,244	119,174	505,283
Non-current liabilities	18,000	66,000	56,038	170,142
Equity attributable to equity holders of our Company	153,931	179,981	250,080	165,029
Non-controlling interests	9,807	11,466	40,615	5,148

### Summary statements of cash flow data

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
<i>(Amount in RMB'000)</i>					
Net cash inflow from operating activities	91,507	108,105	265,840	91,207	163,664
Net cash outflow from investing activities	(51,668)	(60,376)	(86,646)	(34,164)	(198,245)
Net cash inflow/(outflow) from financing activities	(26,409)	(49,341)	(107,754)	12,830	207,024

### PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

[●]

### DIVIDENDS

Subject to the Companies Law, through a general meeting we may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.



## SUMMARY

Except insofar as the rights attaching to, or the terms of issue of, any Share(s) may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on our Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on our Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on our Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- our earnings and profitability;
- our general business conditions;
- our financial condition;
- our operating requirements;
- our capital requirements;
- cash demand and cash flow;
- interests of our Shareholders; and
- any other factors which our Board may deem relevant.

Our future dividend payments to our Shareholders will also depend upon the availability of dividends declared and distributed by our subsidiaries in the PRC. The PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles, which differ in many aspects from HKFRS. The PRC laws also require enterprises located in the PRC to set aside part of their net profit as statutory reserves before they distribute dividends. These statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur losses or by any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

Any dividends on our Shares will be declared and paid in Hong Kong dollars on a per Share basis. Any final dividend for a fiscal year will be subject to our Shareholders’ approval.

Our future dividend policy is that approximately 30% to 50% of our profits available for distribution will be recommended for distribution for each financial year. We may distribute our distributable profits from July 2009 to December 2009 (if any) to our Shareholders after the [●]. There is no assurance that dividends of any amount will be declared or distributed in any year.

## SUMMARY

Our subsidiaries proposed RMB80.9 million, RMB117.6 million, RMB187.0 million and RMB140.3 million in dividends to their then shareholders for profit generated during the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. Historically, we made payment of dividends based on our business and financial conditions as well as interests of the shareholders of the subsidiaries at that time. All dividends payable for each year or period during the Track Record Period will be settled before [●]. The principal source of funding for such dividend payments was the cash inflow generated from our operations.

## FUTURE PLANS AND USE OF PROCEEDS

[●]

## RISK FACTORS

Our Group’s operations are subject to a number of risks, a detailed discussion of which is set out in the section headed “Risk Factors” in this document.

## SUMMARY

### Risks Relating to Our Business

- Our current production capacity limits our ability to increase our revenue; increasing our production capacity will require capital expenditure and management attention
- Our future production expansion projects may not achieve the intended economic benefits
- Our business depends on a stable and adequate supply of raw materials, which is subject to price volatility and other risks
- We may face competition from international competitors or competition from other substitutes for edible collagen sausage casing products which may affect our profits
- We may not be able to manage production cost-effectively
- We have experienced high growth during the Track Record Period and may not be able to maintain similar growth levels in the future
- Product liability claims against us could result in significant costs or negatively affect our reputation and could adversely affect our results of operations
- We may not maintain sufficient insurance coverage for the risks associated with our business operations
- Our business is dependent on our manufacturing facilities. Severe damages to or shutdown of operations at any of our major manufacturing facilities may have a material adverse effect on our business, financial condition and results of operations
- We derive a substantial portion of our sales from the PRC. Any substantial changes in the domestic demand of our products in the PRC may adversely affect our performance and profitability
- We depend on a limited number of customers for a substantial portion of our revenue and a loss of any one of our major customers could cause an adverse effect on our revenue
- As substantially all of our income is derived from the sales of edible collagen sausage casing products, any adverse change in the demand for such products would have a material adverse impact on our profitability
- We may fail in the development of new products
- We may not be able to adequately protect our intellectual property rights
- If there is any material change in our senior management or research and development team, our business may be affected
- We cannot guarantee that our dividend policy will remain at the similar level declared and paid during the Track Record Period
- The national and regional economies may be adversely affected by an outbreak of epidemics, thereby affecting our business, financial condition and results of operation

## SUMMARY

- The global financial markets have experienced significant deterioration and volatility recently, which have had negative repercussions on the global economy and, as a result, may adversely affect our business operations

### **Legal and Regulatory Risks Relating to Our Industry**

- Change in the existing food hygiene laws may affect our business
- Compliance with the laws, regulations or enforcement policies in the PRC or future changes therein may affect our business

### **Risks Relating to the PRC**

- Changes in the economic, political and social conditions in the PRC could adversely affect our business
- A recently enacted PRC tax law could increase the enterprise income tax rate applicable to our operating businesses in China, which could have a material adverse effect on our results of operations
- We may be deemed a PRC tax resident enterprise under the EIT Law and its implementation regulations and be subject to PRC taxation on our worldwide income
- Interest and dividends payable by us to our foreign investors and gain on the sale of our ordinary shares may become subject to withholding taxes under PRC tax laws, which may materially and adversely affect your investment in our Shares
- Governmental control of currency conversion may affect the value of your investment
- Fluctuations in the exchange rate of RMB may adversely affect our business, financial condition and results of operations
- Uncertainty with respect to the PRC legal system could affect our operations
- PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit our ability to use the proceeds of the [●] to make additional capital contributions or loans to our PRC operating businesses
- It may be difficult to enforce against us, our Directors or our senior management in the PRC any judgments obtained from non-PRC courts

## DEFINITIONS

*In this document, unless the context otherwise requires, the following defined terms and expressions shall have the following meanings:*

“Access Asia”	Access Asia Limited, an industry research company and an Independent Third Party
“Access Asia Report”	the report headed “Fresh & Processed Meat in China 2009: A Market Analysis” published by Access Asia
“Accountants’ Report”	the accountants’ report on our Group for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 prepared by Ernst & Young, the text of which is set out in Appendix I to this document
“Articles” or “Articles of Association”	the articles of association of our Company adopted on 19 September 2009, a summary of which is set out in Appendix VI to this document
“associate(s)”	has the meaning ascribed to it under the [●]
“Board”	the board of Directors
“Brighten Lane”	Brighten Lane Limited (亮置有限公司), a company incorporated in the BVI with limited liability on 2 January 2009, the entire issued share capital of which is owned by Mr. Low, and a shareholder holding approximately 20.84% equity interest in Rich Top Future, one of our Controlling Shareholders
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“C.T. Company”	C.T. Company (現代技術公司), an entity registered in California, the U.S. and owned by Mr. Wei at relevant times, and a former shareholder of Wuzhou Shenguan
“C&F”	Commerce & Finance Law Offices (通商律師事務所), our PRC legal adviser
“CAGR”	compound annual growth rate
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

## DEFINITIONS

“Cheng Sheng”	Cheng Sheng International Company Limited, a company incorporated in the BVI with limited liability on 18 October 2007, the entire issued share capital of which is owned by Mr. Wei, and a Shareholder holding approximately 1.62% equity interest in our Company upon [●]
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Shenguan Holdings (Group) Limited (神冠控股(集團)有限公司), a company incorporated in the Cayman Islands with limited liability on 24 February 2009, or where the context refers to any time prior to its incorporation, those businesses and operations which were assumed by it pursuant to the Reorganization, or where the context requires, any of the businesses and operations that is or was carried on by any member of our Group
“connected person(s)”	has the meaning ascribed to it under the [●]
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the [●] and for the purpose of this document, means Ms. Zhou, Hong Kong Shenguan, Glories Site, Xian Sheng and Rich Top Future
“CT Agency Agreement”	the agency agreement dated 22 September 2009 entered into between C.T. Company and Wuzhou Shenguan to engage C.T. Company to act as our agent for locating new clients of our Group in South America
“CT Sale and Purchase Agreement”	the sale and purchase agreement dated 19 September 2009 entered into between C.T. Company (as purchaser) and Wuzhou Shenguan (as seller) for the sales of our products
“Director(s)”	director(s) of our Company
“DTZ”	DTZ Debenham Tie Leung Limited, an independent professional property valuer
“Ernst & Young”	Ernst & Young, our reporting accountants

## DEFINITIONS

“Euro”	the official currency of the European Union’s Eurozone
“Excel Gather”	Excel Gather Limited (合展有限公司), a company incorporated in Hong Kong with limited liability on 13 February 2009 and an indirect wholly-owned subsidiary of our Company
“Exceltech”	Exceltech Enterprise (優良工藝企業), a sole proprietorship registered in Malaysia and owned by Mr. Low at relevant times, and a former shareholder of Wuzhou Shenguan
“Exceltech Sale and Purchase Agreement”	the sale and purchase agreement dated 19 September 2009 entered into between Exceltech (as purchaser) and Wuzhou Shenguan (as seller) for the sale of our products
“FDA”	The United States Food and Drug Administration
“First Acquisition Agreement”	the sale and purchase agreement dated 5 November 2004 entered into among SASAC Wuzhou and Wuzhou Zhongheng (as vendors), and Exceltech and C.T. Company (as purchasers), in relation to the sale and purchase of the entire ownership rights, including all assets and liabilities, of Wuzhou Protein Factory
“Forever Gather”	Forever Gather Limited (冠恒有限公司), a company incorporated in Hong Kong with limited liability on 26 February 2009 and an indirect wholly-owned subsidiary of our Company
“Full Win”	Full Win Consultants Limited (滿盈顧問有限公司), a company incorporated in the BVI with limited liability on 2 January 2009 and a direct wholly-owned subsidiary of our Company
“GBP”	pound sterling, the lawful currency of the United Kingdom of Great Britain and Northern Ireland
“GDP”	gross domestic product
“GFA”	gross floor area
“Glories Site”	Glories Site Limited (冠盛有限公司) (formerly known as Glories Site Limited (榮基有限公司)), a company incorporated in the BVI with limited liability on 3 March 2009, a direct wholly-owned subsidiary of Hong Kong Shenguan, and one of our Controlling Shareholders

## DEFINITIONS

“GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries
“Guangxi”	中國廣西壯族自治區 (Guangxi Zhuang Autonomous Region, the PRC)
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Shenguan”	Shenguan Biology Science & Technology Investment Company Limited (神冠生物科技投資有限公司), a company incorporated in Hong Kong with limited liability on 22 November 2005, the entire issued share capital of which is owned by Ms. Zhou, and one of our Controlling Shareholders
“Independent Third Party(ies)”	person(s) or parties who, to the best knowledge and belief of our Directors after having made all reasonable enquiries, are not connected persons of our Company
“Jumbo Gain”	Jumbo Gain Developments Limited (冠裕發展有限公司) (formerly known as Jumbo Gain Developments Limited (進裕發展有限公司)), a company incorporated in the BVI with limited liability on 2 January 2009 and a direct wholly-owned subsidiary of our Company
“Junye Sale and Purchase Agreement”	the sale and purchase agreement dated 19 September 2009 entered into between Wuzhou Shenguan (as purchaser) and Wuzhou Junye Printing Material (as seller) for the sale of inner packaging materials
“Latest Practicable Date”	21 September 2009, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication
“Memorandum”	the memorandum of association of our Company adopted on 19 September 2009
“MOFCOM”	中華人民共和國商務部 (Ministry of Commerce of the PRC)



## DEFINITIONS

“Mr. Low”	Mr. Low Jee Keong (劉子強先生), a non-executive Director
“Mr. Sha”	Mr. Sha Shuming (沙曙明先生), the spouse of Ms. Zhou
“Mr. Wei”	Mr. Wei Cheng, a director of Wuzhou Shenguan
“Ms. Zhou”	Ms. Zhou Yaxian (周亞仙女士), the Chairman of our Company, an executive Director and one of our Controlling Shareholders
“mu”	mu (畝), a unit of area commonly used in China. 1 mu = 666.67 square meters
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“Reorganization”	the reorganization of our Group in preparation for the [●], the details of which are set out in Appendix VII to this document
“Rich Top Future”	Rich Top Future Limited (富通有限公司), a company incorporated in the BVI with limited liability on 19 February 2009 and is owned as to approximately 65.45% by Glories Site, approximately 20.84% by Brighten Lane and approximately 13.71% by Sky Green, and one of our Controlling Shareholders
“RMB” or “Renminbi”	the lawful currency of the PRC
“SAFE”	中國國家外匯管理局 (the State Administration of Foreign Exchange of China), the PRC governmental agency responsible for matters relating to foreign exchange administration
“SASAC Wuzhou”	中國廣西梧州市人民政府國有資產監督管理委員會(State-owned Assets Supervision and Administration Commission of The People’s Government of Wuzhou, Guangxi, the PRC)
“Second Acquisition Agreement”	the sale and purchase agreement dated 30 November 2004 entered into among Exceltech and C.T. Company (as vendors) and Wuzhou Shenguan (as purchaser), in relation to the sale and purchase of the entire ownership rights, including all assets and liabilities, of Wuzhou Protein Factory

## DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	the ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of our Shares
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 September 2009, the principal terms of which are set out in the paragraphs headed “Share Option Scheme” in Appendix VII to this document
“Shenguan Biological”	梧州市神冠生物實業開發有限公司 (Wuzhou Shenguan Biological Industrial Development Limited), a company established in the PRC with limited liability on 8 April 2008 and a non-wholly owned subsidiary of our Company
“Shengguan BVI”	Shengguan Limited (盛冠有限公司), a company incorporated in the BVI with limited liability on 21 April 2008 and is owned as to 57.21% by Xian Sheng, 25.80% by Wealthy Safe and 16.99% by Cheng Sheng
“Shenguan Industrial”	Shenguan Industrial Company Limited (神冠實業有限公司), a company incorporated in the BVI with limited liability on 21 April 2008 and a direct wholly-owned subsidiary of our Company
“Shenguan Investments”	Shenguan Investments Company Limited (神冠投資有限公司), a company incorporated in Hong Kong with limited liability on 30 April 2008 and an indirect wholly-owned subsidiary of our Company
“Shensheng Jiaoyuan”	梧州市神生膠原製品有限公司 (Wuzhou Shensheng Collagen Products Limited), a company established in the PRC with limited liability on 29 April 2009 and a non-wholly owned subsidiary of our Company
“SIPO”	中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC), the PRC governmental agency responsible for matters relating to intellectual properties

## DEFINITIONS

“Sky Green”	Sky Green Limited (天坤有限公司), a company incorporated in the BVI with limited liability on 3 March 2009, the entire issued share capital of which is owned by Mr. Wei, and a shareholder holding approximately 13.71% equity interest in Rich Top Future, one of our Controlling Shareholders
“sq.ft.”	square feet(s)
“sq.m.”	square meter(s)
“[●]” or “Hong Kong [●]”	The [●] of Hong Kong Limited, a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the [●] and for the purpose of this document, referring to Ms. Zhou, Hong Kong Shenguan, Glories Site, Xian Sheng and Rich Top Future
“Track Record Period”	the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Wealthy Safe”	Wealthy Safe Management Limited, a company incorporated in the BVI with limited liability on 28 March 2008, the entire issued share capital of which is owned by Mr. Low, and a Shareholder holding approximately 2.47% equity interest in our Company upon [●]
“WTO”	The World Trade Organization
“Wuzhou”	Wuzhou City, Guangxi, the PRC
“Wuzhou Government”	中國廣西梧州市人民政府 (The People’s Government of Wuzhou, Guangxi)

## DEFINITIONS

“Wuzhou Huaqiang”	梧州華強食品有限公司 (Wuzhou Huaqiang Food Company Limited), a sino-foreign cooperative joint venture established in the PRC on 26 May 1993, which was owned as to 75% by Wuzhou Shenguan and 25% by Exceltech before its de-registration on 31 December 2006
“Wuzhou Junye Printing Material”	梧州駿業商標印刷有限公司 (Wuzhou Junye Trademark Printing Material Co., Ltd.), a company established in the PRC with limited liability on 21 January 2001, the registered capital of which is owned as to 90% by Mr. Sha and 10% by Mr. Sha Junqi (沙俊奇先生), the son of Mr. Sha and Ms. Zhou, and therefore a connected person of our Company
“Wuzhou Protein Factory”	梧州市蛋白腸衣廠 (Wuzhou Protein Casing Factory), a State-owned factory established in July 1989
“Wuzhou Sanjian”	廣西梧州三箭製藥有限公司 (Guangxi Wuzhou Sanjian Medicine Co. Ltd.), a company established in the PRC with limited liability on 11 December 2002 and the registered capital of which is owned as to 97.67% by Mr. Sha and 2.33% by Mr. Sha Weiming (沙偉明先生), a cousin of Mr. Sha, and therefore a connected person of our Company
“Wuzhou Shenguan”	梧州神冠蛋白腸衣有限公司 (Wuzhou Shenguan Protein Casing Co., Ltd.), a sino-foreign equity joint venture enterprise established in the PRC on 26 November 2004, the registered capital of which is owned as to 97% by our Group and 3% by Wuzhou Xiansheng, and a non-wholly owned subsidiary of our Company
“Wuzhou Xiansheng”	梧州市先盛膠原蛋白技術諮詢服務有限公司 (Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited), a company established in the PRC with limited liability on 28 May 2006, the registered capital of which is owned as to 36.80% by Mr. He Xiangji (何祥吉先生), 35.60% by Ms. Zhou, 4.60% by Mr. Ru Xiquan (茹希全先生), 4.60% by Ms. Cai Yueqing (蔡月卿女士), 4.60% by Mr. Shi Guicheng (施貴成先生), 4.60% by Mr. Mo Yunxi (莫運喜先生), 4.60% by Mr. Li Baowei (黎保偉先生), 4.60% by Ms. Li Ying (李瑩女士), and a minority shareholder holding 3.00% equity interest in Wuzhou Shenguan
“Wuzhou Xingke”	廣西梧州星科電子有限公司 (Guangxi Wuzhou Xingke Electronic Company Limited), a company established in the PRC with limited liability on 31 December 2005 and a non-wholly owned subsidiary of our Company which was under de-registration process as at the Latest Practicable Date

## DEFINITIONS

“Wuzhou Zhongheng”	廣西梧州中恒集團股份有限公司 (Guangxi Wuzhou Zhongheng Group Co., Ltd.), a company established in the PRC with limited liability, the issued A shares of which are listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600252) and an Independent Third Party
“Xian Sheng”	Xian Sheng Limited (仙盛有限公司), a company incorporated in the BVI with limited liability on 5 June 2008, a wholly-owned subsidiary of Hong Kong Shenguan and one of our Controlling Shareholders
“Xiansheng Division”	梧州市仙盛膠原蛋白技術諮詢服務部 (Wuzhou Xiansheng Collagen Technologies Advisory Division), a partnership established in the PRC on 24 November 2004, which was owned as to 95.40% by Ms. Zhou and 4.60% by Ms. Cai Yueqing (蔡月卿女士) before its de-registration on 8 October 2006
“Zhongjing Zongheng”	北京中經縱橫經濟研究院 (Beijing Zhongjing Zongheng Economic Research Institution), an industry and market research and project consultancy services provider, and an Independent Third Party
“Zhongjing Zongheng Report”	the report headed 《2009–2010年中國腸衣製品市場研究預測報告》 (“Market research and forecast report on the sausage casings market in the PRC for 2009 – 2010”) published by Zhongjing Zongheng
“%”	per cent.

*In this document, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or U.S. dollars and vice versa at an exchange rate of RMB1.00 = HK\$1.137 or RMB6.816 = US\$1.00, respectively, and certain amounts denominated in U.S. dollars have been translated into HK dollars and vice versa at an exchange rate of US\$1.00 = HK\$7.750, in each case, for illustration purposes only. Such conversions shall not be construed as representations that amounts in Renminbi or U.S. dollars were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.*

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*In this document, if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail.*

## GLOSSARY

“artificial casing”	a sausage casing which is not a natural casing, usually made of collagen, cellulose or plastic
“biotechnology”	the technology for improving the quality of products, or refining the breed of plants or animals using living organisms or substances from living organisms or the technology for cultivation of micro-organisms for specific purposes, or the process of industrializing biological creatures, systems or processes
“cellulose”	a natural substance that forms the cell walls of all plants and trees and is used in the manufacturing of food products, drugs, plastics, paper and other products
“Chinese-style sausage casing” (中式腸衣)	Chinese-style sausage casing including wind-dried sausage casing (風乾類腸衣)
“collagen”	a helical fiber protein consisting of a bundle of three peptide chains and that forms approximately 20% to 30% of animals’ connective tissues
“collagen sausage casing”	a sausage casing that is made from collagen materials
“glycerol”	a colorless, odorless and viscous liquid chemical compound widely used in food manufacturing and pharmaceutical formulations
“HACCP”	Hazard Analysis And Critical Control Point, a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished products
“ISO”	International Organization for Standardization standards for quality management which are primarily concerned with what an organization does to ensure that its products conform to customer and applicable regulatory requirements and which set requirements for what an organization must do to manage processes influencing product quality
“natural casing”	a sausage casing made from the intestine of an animal
“sausage casing”	the tubular material for enclosing different types of fillings of sausages
“Western-style sausage casing” (西式腸衣)	Western-style sausage casing including colored sausage casing (着色類腸衣), smoked sausage casing (煙燻類腸衣) and fresh meat sausage casing (鮮腸類腸衣)

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, including, but without limitation to, the words and expressions such as “expect”, “believe”, “plan”, “intend”, “estimate”, “anticipate”, “may”, “seek”, “will”, “would” and “could” and the negative of these words or other similar expressions or statements, in particular, in the sections entitled “Business”, “Financial Information” and “Future Plans and Use of Proceeds” in this document in relation to future events, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document, and the following:

- our business and operating strategies and our ability to implement such strategies;
- our capital expenditure and expansion plans;
- our ability to further develop and manage our expansion projects as planned;
- our operations and business prospects;
- various business opportunities that we may pursue;
- our financial condition;
- the availability and costs of bank loans and other forms of financing;
- our dividend policy;
- the regulatory environment of our industry in general;
- the performance and future developments of the sausage casing market in the PRC where we conduct our operation;
- the general outlook of the sausages market in the PRC and the world;
- changes in political, economic, legal and social conditions in the PRC, including the specific policies of the PRC Government and the local authorities in the regions where we operate;
- changes in competitive conditions and our ability to compete under these conditions;
- changes in currency exchange rates; and
- other factors beyond our control.

## **FORWARD-LOOKING STATEMENTS**

The forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward- looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

In this document, statements of or references to the intentions of our Company or any of our Directors are made as at the date of this document. Any such intentions may potentially change in light of future developments.



## **RISK FACTORS**

### **RISKS RELATING TO OUR BUSINESS**

#### **Our current production capacity limits our ability to increase our revenue; increasing our production capacity will require capital expenditure and management attention**

As we currently operate much of our equipment at or near its full capacity, our ability to respond to increasing demand for our products and growth in our revenue is limited by our production capacity. Therefore, for us to make significant increases to our revenue will require us to expand such production capacity. Successful expansion of our capacity will require significant capital expenditure. In addition, it will require us to properly select, install and integrate our new production lines with our existing operations, and hire, train and manage additional production personnel to successfully increase our production capacity. Delays for any reason in our plans to increase our capacity would limit our ability to increase our sales volume. In addition, if we fail to increase production and do not have sufficient capacity to satisfy the demand for our products, our relationship with customers could be harmed.

#### **Our future production expansion projects may not achieve the intended economic benefits**

As we currently operate at or near our full production capacity, significant future growth in our revenue will require expansion of our production facilities, which in turn will require substantial capital expenditure. For the year ended 31 December 2008, we made capital expenditure of RMB110.9 million in connection with the expansion of our operations, of which RMB73.5 million was made in connection with the construction of our new production plant at Wuzhou Industrial Park (梧州市工業園區). We estimate that capital expenditure for the expansion of production capacity in 2009 and 2010 will amount to an aggregate of RMB715.4 million. The construction of new facilities is subject to various potential problems and uncertainties, and may be delayed or adversely affected by a number of factors beyond our control, including the failure to obtain regulatory approvals and permits, delays in the delivery or installation of equipment by our suppliers, difficulties in integrating new equipment with our existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, or insufficient funding or other resource constraints. Moreover, actual costs for construction may exceed our budgets. As a result of construction delays, cost overruns, changes in market circumstances or other factors, we may not be able to achieve the intended economic benefits from the construction of new facilities, which in turn may materially and adversely affect our business, prospects, financial condition and results of operations.

## **RISK FACTORS**

### **Our business depends on a stable and adequate supply of raw materials, which is subject to price volatility and other risks**

Our production volume and production costs are dependent on our ability to source at acceptable prices and maintain a stable and sufficient supply of raw materials such as cattle’s inner skins and packaging materials. We procure all our raw materials in domestic markets. If we are unable to obtain raw materials in the quantities and of a quality that we require, the volume or quality of our production and our revenue may be adversely affected. We expect that our raw material price will continue to fluctuate and be affected by inflation in the future. Price changes to our raw materials may result in unexpected increases in production and packaging costs, and if we are unable to manage these costs or to increase the prices of our products to offset these increased costs, our profitability will decrease.

The principal raw material we use for production of edible collagen sausage casing products is cattle’s inner skins, which we purchase from the suppliers in the PRC. We cannot be sure that our supply of cattle’s inner skins will not be disrupted. For example, if there is any outbreak of mad-cow disease, foot and mouth disease or any other epidemic that impacts cattle in the PRC, cattle’s inner skins may not be obtainable from our PRC suppliers and we may be forced to purchase cattle’s inner skins from overseas suppliers at a higher cost. Accordingly, our business and profitability may be adversely affected.

### **We may face competition from international competitors or competition from other substitutes for edible collagen sausage casing products which may affect our profits**

The PRC market for processed meat products is growing rapidly and therefore may attract international competitors looking for sales expansion. Some of our overseas competitors may take measures such as establishing production lines in the PRC or reducing price of their products to gain entry into the PRC market. This may cause us to experience downward pressure on our price and profit margins.

We may also face competition from other substitute products for edible collagen sausage casing products such as natural sausage casing or the development of new sausage-wrapping technologies such as co-extrusion technologies which enable sausages to become casing-free. If our customers prefer any of the substitutes for edible collagen sausage casing products over our products, or the substitute products are able to be produced at lower price than our products, or the development of new technologies otherwise achieves maturity and receives market acceptance, our business and profitability may be adversely affected.

### **We may not be able to manage production cost-effectively**

A number of factors, many of which are beyond our control, may cause delays in the delivery of our products, or increase our cost of production, which may negatively affect our profitability. These factors include manufacturing difficulties, supply disruptions and defects in raw materials or equipment. In addition, our profit margins are significantly influenced by our ability to maintain high production yields and capacity utilization. If we are unable to streamline and improve the efficiency of our production facilities or if we face technological difficulties in our production processes, it may adversely impact our ability to maintain our cost competitiveness.

## RISK FACTORS

During the Track Record Period, we maintained a high level of utilization at our production facilities in Wuzhou. However, we commenced production at our new production plant in Wuzhou in November 2008 and we cannot assure you that we will be able to maintain the high utilization rates that have allowed to achieve cost effective production in the future. In extended periods of low demand, we may experience relatively low capacity utilization rates in our operations which may have a material adverse effect on our business, prospects, financial condition and results of operations.

### **We have experienced high growth during the Track Record Period and may not be able to maintain similar growth levels in the future**

We have experienced significant growth and expansion over the Track Record Period. In 2007 and 2008, we increased our production capacity by 50.0% and 51.1%, and our sales by 45.4% and 75.1%, respectively. While we plan to continue to devote significant attention and resources to the expansion of our operations and revenue, we may not be able to continue this rate of growth in future periods. As a result, investors should not place undue reliance on our past performance.

We expect our future growth to place significant demand on us and require us to continuously evolve and improve our operational, financial and internal controls across the organization. In particular, our continued expansion will increase the challenges involved in:

- effectively managing larger scale production;
- attracting, training, motivating and retaining qualified personnel;
- adhering to health, safety, environment, and quality and process execution standards that meet our clients’ expectations;
- managing the logistics, utility and supply needs of our expanded operations; and
- maintaining adequate control over our expenses.

In addition, maintaining our future growth will also depend on other extrinsic factors such as the global economy and market trends. As we cannot be sure that our efforts will be successful or external factors will remain favorable to us in the future, we may not achieve the growth and profitability targets we have set for our company.

### **Product liability claims against us could result in significant costs or negatively affect our reputation and could adversely affect our results of operations**

We supply products used in the production of food, and also manufacture and sell a limited amount of dried meat products under our brand name “Shenguan” (「神冠」). As we operate in the food industry, we may be subject to liabilities arising from food contamination. For example, we may encounter product liability claims by consumers and receive administrative warnings from government authorities in connection with the quality of our products. If food contamination incidents occur in our production or delivery processes, we may be required to pay compensation to consumers, pay administrative fines and penalties and be ordered to suspend or cease production. Any such incident would likely generate negative publicity, resulting in a loss of consumer confidence and goodwill, which in turn may lead to a reduction in our sales and profitability. Further, we could be subject to such claims or liabilities based on

## **RISK FACTORS**

contamination caused by the suppliers from whom we purchase raw materials, or caused by our customers that use our products in the manufacture of their products and sell to their end customers. However, there is no guarantee that in any action for food contamination or other product liability actions, that such suppliers or customers would be found liable, or if found liable, that they would have the resources to satisfy any judgements or fines, in which case we may be forced to meet such obligations. We do not maintain any product liability insurance that would help us to cover the costs of any potential product liability claims as such insurance is not compulsory in the PRC and is not in accordance with industry practice. Although we have never experienced any warranty or product liability claims, we cannot assure you that we will not experience material losses arising from product liability claims in the future.

### **We may not maintain sufficient insurance coverage for the risks associated with our business operations**

Risks associated with our production and sale of collagen sausage casing products include damage to production facilities, environmental pollution, transportation damages and delays, food safety and risks posed by natural disasters, any or all of which may affect our business operations. Further, we may be unable to obtain or maintain insurance policies covering risks associated with natural disasters, business interruption or environmental damages arising from our production activities. Therefore, if we incur any losses which are not covered by our insurance policies, or the amount of compensation we receive from our insurer is significantly less than our actual loss, our financial condition could be adversely affected.

### **Our business is dependent on our manufacturing facilities. Severe damages to or shutdown of operations at any of our major manufacturing facilities may have a material adverse effect on our business, financial condition and results of operations**

We currently conduct all of our operations at our manufacturing facilities at Wuzhou. Our facilities are subject to operation risks, such as the breakdown or failure of our major equipment, power supply or maintenance, performance below expected levels of output or efficiency, obsolescence, labor disputes, natural disasters, industrial accidents and the need to comply with the directives of relevant government authorities. The occurrence of any of these risks could affect our operating results. In particular, Wuzhou has been among the areas most adversely affected by flooding in Guangxi, and we cannot assure you that flooding which may occur in the future will not cause our production facilities to suffer damage or will not otherwise interrupt our operations. Because all of our production facilities are located in the two production plants in Wuzhou in close proximity, any condition which halted or severely restrained production in that location, such as flooding, earthquake, fire or weather conditions, may result in a material adverse effect on our results of operations and if continued, our business prospects.

We are required to carry out planned shutdowns of our plants for maintenance, statutory inspections and testing. We also shut down plants for capacity expansion and equipment upgrades. Although we take precautions to minimize the risk of any significant operational problems at our facilities, our business, financial condition and results of operations may be adversely affected by any disruption of operations at our facilities, whether caused by any of the factors mentioned above or otherwise.

### **We derive a substantial portion of our sales from the PRC. Any substantial changes in the domestic demand of our products in the PRC may adversely affect our performance and profitability**

During the Track Record Period, our sales were mainly derived from the PRC market. We anticipate that our sales in the PRC will continue to represent a significant proportion of our total revenue

## **RISK FACTORS**

in the near future. Accordingly, our operating results and financial position are largely subject to the economic, political, social and legal developments in the PRC as well as changes in the domestic demand for our products in the PRC. There is no assurance that such changes in the PRC will not adversely affect our performance and profitability.

### **We depend on a limited number of customers for a substantial portion of our revenue and a loss of any one of our major customers could cause an adverse effect on our revenue**

We are dependent on a limited number of customers for a substantial portion of our business. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, approximately 40.3%, 42.6%, 56.7% and 60.3% of our revenue, respectively, were derived from sales to our top five customers. During the same period, our single largest customer accounted for approximately 13.9%, 19.9%, 37.8% and 44.4%, respectively, of our total revenue. We expect that we will continue to depend on a relatively limited number of customers for a significant portion of our revenue because of the concentration of demand for our services. The ability to maintain close and satisfactory relationship with our customers is important to the future success of our business. None of our customers is presently obligated to purchase our sausage casing products or provide us with binding forecasts of purchases for any period. If any of our significant customers reduce, delay or cancel their orders, our revenue may be reduced.

### **As substantially all of our income is derived from the sale of edible collagen sausage casing products, any adverse change in the demand for such products would have a material adverse impact on our profitability**

As the PRC’s largest manufacturer of edible collagen sausage casing products, we generate substantially all of our income from manufacturing and selling these products and we expect that we will continue to generate significantly all of our income from sales of these products in the near term. We therefore depend significantly on the growth in the demand for sausage and other processed meat products for the growth in our business. We compete with other manufacturers of collagen sausage casing products, as well as alternative products, for our sales in the PRC and globally. Given our reliance on this one product line, our results of operations would be negatively impacted if there were adverse changes in the demand for these products or if our target customers chose to purchase these products from other suppliers.

### **We may fail in the development of new products**

The processed meat product industry in which we compete is growing and experiencing changes in consumer preference and demand. As a result, we must strive to stay abreast of product trends in order to maintain our competitive position. In addition, we must continuously refine our manufacturing processes and technology to improve our production efficiency and capacity utilization. To achieve these goals, our expenses in research and development for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, amounted to RMB1.6 million, RMB11.1 million, RMB23.1 million and RMB11.7 million, respectively. We cannot assure you that we will be successful in developing new products that our customers may require, or acquiring any new technologies required to produce such products. In addition, we may devote considerable time, management attention and expenditures to develop new products that ultimately do not achieve commercial success in our market place. If we invest heavily in developing a new product which cannot be successfully completed or does not achieve market acceptance, our ability to grow our revenue and profitability may be adversely affected.

## **RISK FACTORS**

### **We may not be able to adequately protect our intellectual property rights**

We have developed trademarks, patents, know-hows, processes, technologies and other intellectual property rights that are of significant value to us. In particular, we have obtained registered patents in the PRC for certain production methods we employ in manufacturing our products, which will expire in 2015 and 2016. There can be no assurance that any of our intellectual property rights will not be challenged, misappropriated or circumvented by third parties. In addition, the legal regime governing intellectual property in the PRC is still evolving and the level of protection of intellectual property rights in the PRC may differ from those in other jurisdictions. In the event that the steps we have taken and the protection provided by law do not adequately safeguard our intellectual property rights, we could suffer losses in profits due to the sales of competing products that exploit our intellectual property rights.

### **If there is any material change in our senior management or research and development team, our business may be affected**

Our success, to a great extent, has been attributable to the expertise and experience of our senior management and our research and development team in the collagen sausage casing industry. Moreover, our daily operation and performance rely heavily on our senior management, while the development and reliability of our products and production processes rely closely on our research team. Should there be any material change in the composition of our senior management or research and development team, our business operation may be adversely affected.

### **We cannot guarantee that our dividend policy will remain at the similar level declared and paid during the Track Record Period**

During the Track Record Period, our subsidiaries proposed dividends in an aggregate amount of approximately RMB80.9 million, RMB117.6 million, RMB187.0 million and RMB140.3 million, respectively, to their then shareholders for profit generated during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. The dividend payments were financed by cash generated from our operating profits. Potential investors should note that such prior dividend distributions should not be considered as interpretation of our dividend policy. We expect that future proposals on dividend distribution will be based on our profitability, financial condition, cash demand and cash flow and other relevant factors as assessed at the time dividends are considered.

Details of our dividend policies are set out in the paragraph headed “Dividends” under the section headed “Financial Information” in this document.

### **The national and regional economies may be adversely affected by an outbreak of epidemics, thereby affecting our business, financial condition and results of operation**

The outbreak of any severe communicable disease in the PRC or elsewhere could have a material adverse effect on the overall business sentiment and environment in the PRC. This situation in turn may have a material adverse effect on domestic consumption and, possibly, the PRC’s overall GDP growth. As substantially all of our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or GDP may materially and adversely affect our business, prospects, financial condition and results of operations. In addition, if our employees are affected by any severe communicable disease, we may be required to close our facilities or institute other measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our



## RISK FACTORS

production. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may in turn have a material adverse effect on our business and profitability.

The recent outbreak of Influenza A (H1N1), also widely known as “swine flu”, has caused deaths worldwide. Countries and territories including Hong Kong have officially reported cases of Influenza A (H1N1) infection. The increasing number of Influenza A (H1N1) infected cases in certain Asian countries and territories could indicate a significant epidemic, which would limit local and cross-border business activities and threaten the prospects of economic recovery in those areas. It is unclear whether the outbreak will become more aggressive or will wane in the near future. Any prolonged outbreak of Influenza A (H1N1) or other severe communicable disease in the PRC or elsewhere could have a material adverse effect on our business, prospects, financial condition or results of operations.

**The global financial markets have experienced significant deterioration and volatility recently, which have had negative repercussions on the global economy and, as a result, may adversely affect our business operations**

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowing of economic growth both in the U.S. and globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. While it is difficult to predict how long these conditions will exist and which markets may be affected, these developments could continue to present risks for an extended period of time for our Company, including a potential slowdown in our sales to customers, increase in interest expenses on our bank borrowings, or reduction of the amount of banking facilities currently available to us. If this economic downturn continues, our business, financial condition and results of operations may be adversely affected.

## LEGAL AND REGULATORY RISKS RELATING TO OUR INDUSTRY

### **Changes in the existing food hygiene laws may affect our business**

Food manufacturers in the PRC are subject to PRC food hygiene laws and regulations. These food hygiene laws require all enterprises engaged in the production of food products to obtain a hygiene license for each of their production facilities. They also set out hygiene standards with respect to food and food additives, packaging and containers, information to be disclosed on the packing as well as hygiene requirements for food production and sites, facilities and equipment used for the transportation and sale of food. The People’s Republic of China Food Safety Law (《中華人民共和國食品安全法》) (the “Food Safety Law”) was passed on the 28 February 2009, and took effect on 1 June 2009. In general, the Food Safety Law raised the hygiene requirements and elevated the level of governmental supervision. For example, under the Food Safety Law:

- all food additives will have to be tested and proven safe by the risk assessment principles set up by the PRC Government before they can be used;
- chemicals other than specifically permitted additives are forbidden in food production;
- no food product is exempt from inspection by the relevant food safety supervision authority; and
- all food manufacturers will have to suspend production immediately and recall all products in the market if their products fail to meet the required safety standard.

## **RISK FACTORS**

As the Food Safety Law is relatively new, we are still in the process of identifying what impact it may have on our business. Our failure to comply with the Food Safety Law or other food hygiene laws in the PRC or other jurisdictions in which we manufacture, distribute, or sell our products may result in fines, suspension of operations, loss of hygiene licenses and, in more extreme cases, criminal proceedings against us and our management. In the event that relevant authorities increase the stringency of such laws, our production and distribution costs may increase.

### **Compliance with the laws, regulations or enforcement policies in the PRC or future changes therein may affect our business**

As a PRC operating company, our production activities and operations are subject to national, provincial and municipal laws and regulations in the PRC, including, among others, environmental, safety and health regulations with which we are required to comply. Failure to comply with these regulations may result in fines and/or suspension or revocation of our licenses or permits to conduct our business. Given the magnitude and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources to establish efficient compliance and monitoring systems. In addition, these regulations are constantly evolving. There can be no assurance that the PRC Government will not impose additional or stricter laws or regulations, compliance with which may cause us to incur significant costs, which we may be unable to pass on to our customers. We may incur increased costs or be required to modify our operations to comply with such requirements as a result of any such change and our business may be affected.

Environmental protection is an area of regulation that is continuously evolving in the PRC, and our violation of environmental laws could have a material and adverse impact on our operations and profitability. If an enterprise fails to report or provides false information about the environmental pollution it caused, it may receive a warning or be penalized. Failure to eliminate or control pollution within the timeframe required by regulators may result in fees for excessive discharge, imposition of a fine, or suspension or closure of our operations. We believe we comply with all relevant PRC environmental protection laws and regulations. Nevertheless, there can be no assurance that the PRC Government will not change the existing laws and regulations or make additional or stricter laws and regulations on environmental protection, compliance of which may cause us to incur significant capital expenditure. There is no assurance that we will be able to comply with any such law or regulation as may be amended or promulgated in the future.

### **RISKS RELATING TO THE PRC**

Substantially all of our assets are located in the PRC and substantially all of our revenue is generated in the PRC. Accordingly, our business, results of operations and financial condition are subject to a significant degree to the economic, political and legal developments in the PRC.

### **Changes in the economic, political and social conditions in the PRC could adversely affect our business**

The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to:

- structure;
- level of government involvement;



## RISK FACTORS

- level of development;
- growth rate;
- level and control of capital investment;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has grown significantly in the past 20 years, growth has been uneven, both geographically and across the various sectors of the economy. The PRC Government has implemented various measures to encourage economic growth and guided the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect our operations. For example, our financial condition and results of operations may be adversely affected by the PRC Government’s control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy with socialist characteristics. However, a substantial portion of the productive assets in China are still owned and controlled by the PRC Government. For the past two decades, the PRC Government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC’s economic, political and social conditions, laws, regulations and government policies will have any adverse effect on our current or future business, results of operations or financial condition.

### **A recently enacted PRC tax law could increase the enterprise income tax rate applicable to our operating businesses in China, which could have a material adverse effect on our results of operations**

On 16 March 2007, the new PRC Enterprise Income Tax law (《中華人民共和國企業所得稅法》) (the “EIT Law”) was enacted, which became effective on 1 January 2008 and replaced the previous two separate tax legal regimes for foreign invested enterprises (“FIEs”) and Chinese domestic companies. The EIT Law adopts a uniform tax rate of 25% for all enterprises, including FIEs, and revokes many of the previous tax exemption, reductions and preferential treatments which were applicable to FIEs. However, any enterprises that were established before the promulgation of the EIT Law that are entitled to preferential tax treatments for a fixed period will continue to be entitled to such preferential tax treatments until the expiration of such period. If the fixed period has not commenced because of losses, it shall be deemed to commence on 1 January 2008. As a result, the applicable tax rate to certain of our existing PRC operating businesses have increased from 15% to the unified tax rate of 25% under the EIT Law.

Moreover, the EIT Law provides that a withholding income tax rate of 10% will be applicable to dividends payable to foreign investors that are “non-resident enterprises” to the extent such dividends have their source within China unless the jurisdiction of such foreign investor has a tax treaty with China that provides a different withholding arrangement.

## RISK FACTORS

### **We may be deemed a PRC tax resident enterprise under the EIT Law and its implementation regulations and be subject to PRC taxation on our worldwide income**

The EIT Law and its implementation regulations currently in force provide that if a non-PRC incorporated enterprise invested by a Chinese enterprise or a group of Chinese enterprises as its majority shareholder has its “de facto management organization” located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income.

As at the Latest Practicable Date, the relevant PRC tax rules have not clarified whether and under what conditions a foreign enterprise controlled by Chinese national(s) will be regarded as a PRC tax resident enterprise and currently, it is uncertain whether the PRC local tax authority will make such determination. Thus, in the case of our Company, although certain members of our Group’s management and all the Company’s executive directors reside in the PRC, there have been no official tax rules promulgated regarding the determination of the “de facto management organization” for foreign enterprises which are controlled by Chinese nationals (including companies like ourselves).

Furthermore, the Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (No. 82 [2009] of the State Administration of Taxation) (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知(國稅發[2009]82號》) (the “CCE Notice”) currently in force has only clarified the conditions under which a foreign company invested by a Chinese enterprise or a group of Chinese enterprises as its majority shareholder would be considered as having its “de facto management organization” located in the PRC.

As such, we believe our Company is not a PRC tax resident enterprise falling within the definition of the CCE Notice because our Company is controlled by Chinese nationals and there is no Chinese enterprise or group of Chinese enterprises investing in our Company as our Company’s majority shareholder.

If the PRC tax rules later clarify that any of our Group’s non-PRC entities is a deemed PRC tax resident enterprise, such deemed PRC tax resident enterprise would be subject to enterprise income tax of 25% on its worldwide income (including dividend income receivable from its subsidiaries), which excludes the dividends receivable directly from another PRC tax resident. Currently we cannot assure you that we will not be treated as a “PRC tax resident enterprise” under the EIT Law and related implementation regulations and not be subject to the enterprise income tax at the rate of 25% on our income generated both inside and outside the PRC.

### **Interest and dividends payable by us to our foreign investors and gain on the sale of our ordinary shares may become subject to withholding taxes under PRC tax laws, which may materially and adversely affect your investment in our Shares**

Under the EIT Law and implementation regulations issued by the State Council, PRC withholding tax at the rate of 10% is applicable to interest and dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in China, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within China. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% PRC

## **RISK FACTORS**

withholding tax if such gain is regarded as income derived from sources within China. If we are considered a PRC “resident enterprise,” it is unclear whether the interest or dividends we pay with respect to our ordinary shares, or the gain our non-PRC shareholders may realize from the transfer of our ordinary shares, would be treated as income derived from sources within China and be subject to PRC tax. However, Hong Kong, where our intermediate holding companies are incorporated, has entered into a treaty that reduces the withholding tax rate to 5% on dividends received by Hong Kong companies from their PRC subsidiaries under certain conditions.

If we are required under the EIT Law to withhold PRC income tax on interest or dividends payable to our non-PRC shareholders that are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our ordinary shares, the value of your investment in our ordinary shares may be materially adversely affected. A recently enacted PRC tax law could affect tax exemptions on dividends received by us, and our shareholders and increase our enterprise income tax rate.

### **Governmental control of currency conversion may affect the value of your investment**

The PRC Government imposes restrictions on converting RMB into foreign currencies, which will limit our transactions involving foreign currencies and adversely affect our ability to transfer funds to and receive dividends from our PRC subsidiaries. Since we generate most of our revenue in RMB, our PRC subsidiaries need to convert a portion of their revenue into foreign currencies to pay dividends to us. Under the existing foreign exchange regime in the PRC, conversion of RMB into foreign currencies for payment of dividends is subject to the procedural requirements of the SAFE. Any foreign exchange transactions for capital expenditure on equipment or merchandise also require prior approvals from the SAFE. If we are unable to obtain such approvals, our capital expenditure plans and, consequently, our ability to grow our business, could be affected. Moreover, changes in the PRC foreign exchange regulations may adversely affect our ability to transfer funds to and receive dividends from our PRC subsidiaries.

### **Fluctuations in the exchange rate of RMB may adversely affect our business, financial condition and results of operations**

The value of RMB against other foreign currencies is subject to changes in the PRC Government’s policies and international economic and political developments. Under the current unified floating exchange rate system, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People’s Bank of China, which are quoted daily based on the inter-bank foreign exchange market rates on the previous day and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of RMB to Hong Kong and U.S. dollars have generally been stable. However, with effect from 21 July 2005, the PRC Government reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the RMB appreciated against Hong Kong and U.S. dollars by approximately 2.0% on the same date. On 23 September 2005, the PRC Government widened the daily trading band for RMB against non-U.S. dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. It is uncertain if the exchange rates of Hong Kong and U.S. dollars against RMB will further fluctuate. In the event of significant changes in the exchange rates of Hong Kong and U.S. dollars against RMB, our ability to make dividend payments in foreign currencies may be adversely affected. In addition, we may deposit the unused proceeds from the [●] in bank accounts without converting them into RMB assets. In the event that the appreciation of Renminbi against U.S. dollar and Hong Kong dollar continues, we may record a negative amount in the exchange reserve, which will decrease our total equity attributable to equity holders.

## **RISK FACTORS**

### **Uncertainty with respect to the PRC legal system could affect our operations**

As substantially all of our businesses are conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as references. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

### **PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit our ability to use the proceeds of the [●] to make additional capital contributions or loans to our PRC operating businesses**

Any capital contributions or loans that we, as an offshore company, make to our PRC operating businesses are subject to PRC regulations. For example, any of our loans to our PRC operating businesses cannot exceed the difference between the total amount of investment our PRC operating businesses are approved to make under relevant PRC laws and their respective registered capital, and must be registered with the local branch of the SAFE as a procedural matter. In addition, our capital contributions to our PRC operating businesses are subject to the approval of local administration for industry and commerce or other relevant local authorities. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC operating businesses or to fund their operations may be negatively affected, which could adversely affect their liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

Furthermore, the SAFE promulgated a new circular in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into RMB. Pursuant to this new circular, RMB converted from foreign exchange capital contribution can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition unless otherwise allowed by PRC laws or regulations. As a result, we may not be able to increase the capital contributions of our operating subsidiaries and subsequently convert such capital contribution into RMB for equity investment or acquisition in China.

### **It may be difficult to enforce against us, our Directors or our senior management in the PRC any judgments obtained from non-PRC courts**

Substantially all of our assets are located within the PRC. China does not have treaties with many countries that provide for the reciprocal recognition and enforcement of judgments of courts, and specifically does not have treaties with Japan, the United States and the United Kingdom. Therefore, it may be difficult for you to enforce against us, any of our Directors or our senior management in the PRC any judgments obtained from non-PRC courts.

## DIRECTORS AND PARTIES INVOLVED

### DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Ms. Zhou Yaxian (周亞仙女士)	Room AH 26/F, Lijing Court Guotai Plaza No. 18 Zhongshan Road Wanxiu District Wuzhou, Guangxi PRC	Chinese
Ms. Cai Yueqing (蔡月卿女士)	Room 802, Unit 2, Block 11 No. 89 Xiasanyun Road Dieshan District Wuzhou, Guangxi PRC	Chinese
Mr. Shi Guicheng (施貴成先生) (Note 1)	Room 301 No. 59 Bubu Road Dieshan District Wuzhou, Guangxi PRC	Chinese
Mr. Ru Xiquan (茹希全先生)	Room 303, No. 224 Shi Gu Chong Yungai Third Road Wanxiu District Wuzhou, Guangxi PRC	Chinese
<i>Non-executive Director</i>		
Mr. Low Jee Keong (劉子強先生) (Note 2)	36 Jin Palong The Mines Resort City 43300 Seri Kembangan Selangor Malaysia	Malaysian

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*Notes:*

1. While Mr. Shi Guicheng’s official Chinese name is 施貴成, he has previously used another Chinese name 施桂成.
2. Mr. Low Jee Keong’s Chinese name 劉子強 is an unofficial name.

## DIRECTORS AND PARTIES INVOLVED

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
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*Independent Non-executive Directors*

Mr. Tsui Yung Kwok (徐容國先生)	Flat F, 53/F, Block T3 Metro Town 8 King Ling Road Tseung Kwan O New Territories Hong Kong	Chinese
Mr. Meng Qinguo (孟勤國先生)	Room 201, Unit 1, Block 17B East Campus Central No. 100 East Daxue Road Xixiangtang District Nanning City, Guangxi PRC	Chinese
Mr. Yang Xiaohu (楊小虎先生)	Room C-402, Haitang Garden Vanke Si Ji Hua Cheng Phase I Shenzhen City, Guangdong PRC	Chinese

## DIRECTORS AND PARTIES INVOLVED

### PARTIES INVOLVED

#### Legal advisers to our Company

*as to Hong Kong law*

Loong & Yeung  
Suites 2201-2203  
22/F, Jardine House  
1 Connaught Place  
Central  
Hong Kong

*as to PRC law*

Commerce & Finance Law Offices  
6/F, NCI Tower  
A12 Jianguomenwai Avenue  
Beijing  
PRC

*as to Cayman Islands law*

Conyers Dill & Pearman  
Cricket Square  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

#### Reporting Accountants

Ernst & Young  
*Certified Public Accountants*  
18/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

#### Property valuer

DTZ Debenham Tie Leung Limited  
16/F, Jardine House  
1 Connaught Plaza  
Central  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Head Office</b>	29 Fudian Shangchong Xijiang Fourth Road Wuzhou, Guangxi PRC
<b>Principal place of business in Hong Kong</b>	Unit 2902, Sino Plaza 255-257 Gloucester Road Causeway Bay Hong Kong
<b>Website address</b>	www.shenguan.com.cn (the contents of which do not form part of this document)
<b>Company secretary</b>	Mr. Ng Yuk Yeung (吳旭陽先生) <i>FCCA CPA CFA</i>
<b>Authorized representatives</b>	Ms. Zhou Yaxian (周亞仙女士) Room AH 26/F, Lijing Court Guotai Plaza No. 18 Zhongshan Road Wanxiu District Wuzhou, Guangxi PRC  Mr. Ng Yuk Yeung (吳旭陽先生) Flat D, 31/F Tower 2, Sham Wan Towers 3 Ap Lei Chau Drive Aberdeen Hong Kong
<b>Audit Committee</b>	Mr. Tsui Yung Kwok (徐容國先生) ( <i>Chairman</i> ) Mr. Meng Qinguo (孟勤國先生) Mr. Yang Xiaohu (楊小虎先生)
<b>Remuneration Committee</b>	Mr. Meng Qinguo (孟勤國先生) ( <i>Chairman</i> ) Ms. Zhou Yaxian (周亞仙女士) Mr. Yang Xiaohu (楊小虎先生)



## CORPORATE INFORMATION

### Nomination Committee

Ms. Zhou Yaxian (周亞仙女士) (*Chairman*)  
Mr. Meng Qinguo (孟勤國先生)  
Mr. Yang Xiaohu (楊小虎先生)

### Principal bankers

Agricultural Bank of China  
Shop 1, LG01  
Hengyequotai Plaza  
9 Zhongshan Road  
Wuzhou, Guangxi  
PRC

Bank of China  
41 Nanzhong Road  
Wuzhou, Guangxi  
PRC

Bank of Communications  
Shops 13 to 16, First Floor  
Jintai Commercial Plaza  
Juren Road  
Wuzhou, Guangxi  
PRC

China Construction Bank  
8 Zhongshan Road  
Wuzhou, Guangxi  
PRC

Industrial and Commercial Bank of China  
1 Nanzhong Road  
Wuzhou, Guangxi  
PRC

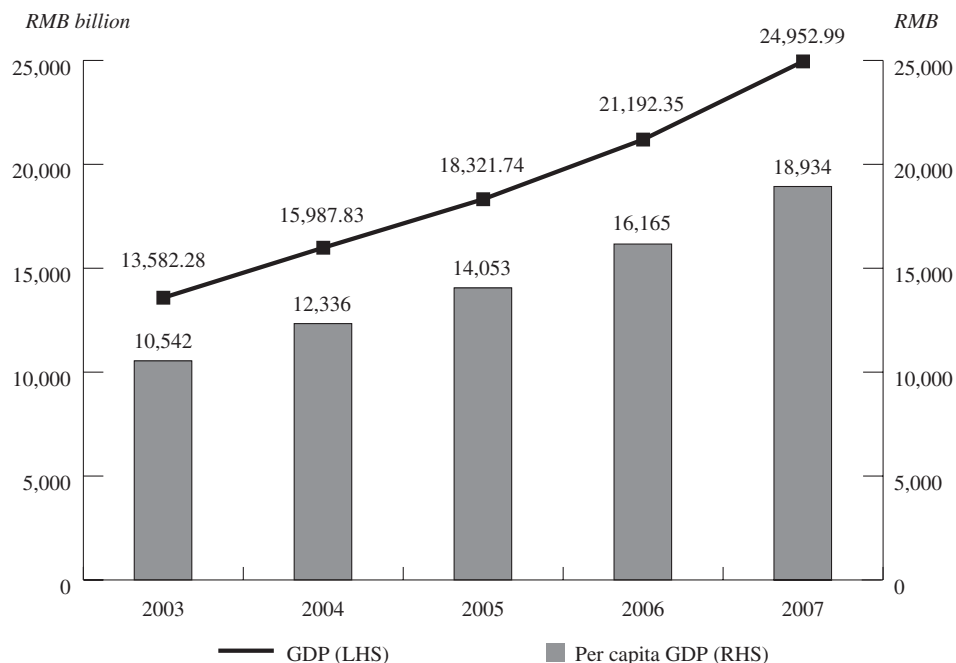
## INDUSTRY OVERVIEW

### THE ECONOMY OF THE PRC

#### Economic growth of the PRC

The PRC is one of the world’s fastest growing economies. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), in 2007, the GDP of the PRC was approximately RMB24,953 billion, representing a CAGR of approximately 16.42% as compared to the GDP of the PRC of approximately RMB13,582 billion in 2003. From 2003 to 2007, the per capita GDP also increased from approximately RMB10,542 per annum to approximately RMB18,934 per annum, representing a CAGR of approximately 15.77%. The following chart sets forth the nominal GDP and per capita GDP of the PRC from 2003 to 2007:

**Nominal GDP and per capita GDP of the PRC (2003–2007)**



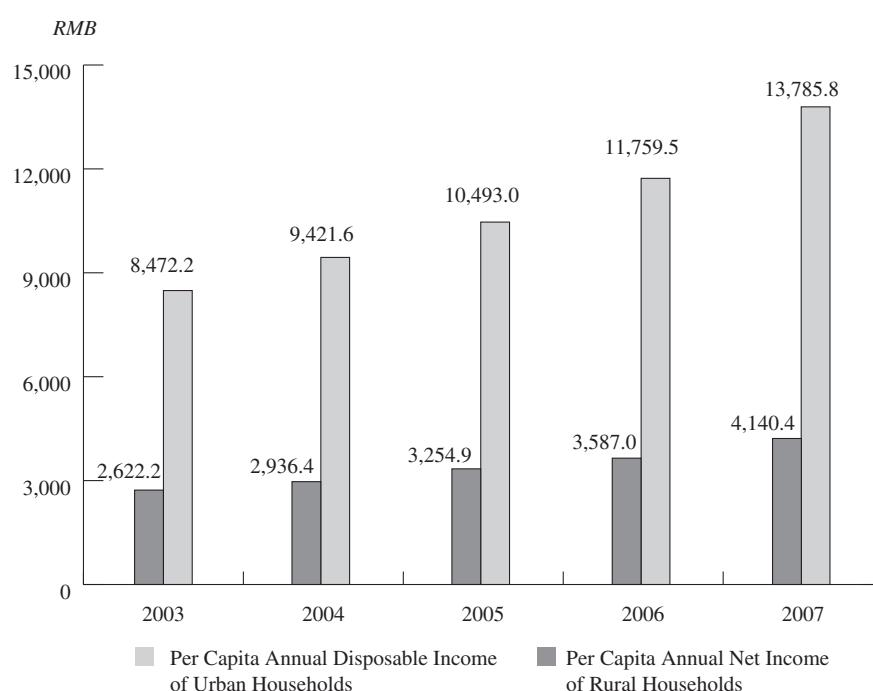
Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

## INDUSTRY OVERVIEW

### Growth in disposable income of urban and rural households in the PRC

Personal disposable income from urban and rural households in the PRC has been increasing together with economic growth. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), from 2003 to 2007, the per capita annual disposable income of urban households in the PRC increased from approximately RMB8,472 to approximately RMB13,786, representing a CAGR of approximately 12.94%. The per capita annual net income of rural households in the PRC increased from approximately RMB2,622 in 2003 to approximately RMB4,140 in 2007, representing a CAGR of approximately 12.10%. The following chart sets forth the per capita annual disposable income of urban households and the per capita annual net income of rural households in the PRC from 2003 to 2007:

**Per capita annual income of urban and rural households in the PRC (2003–2007)**



Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

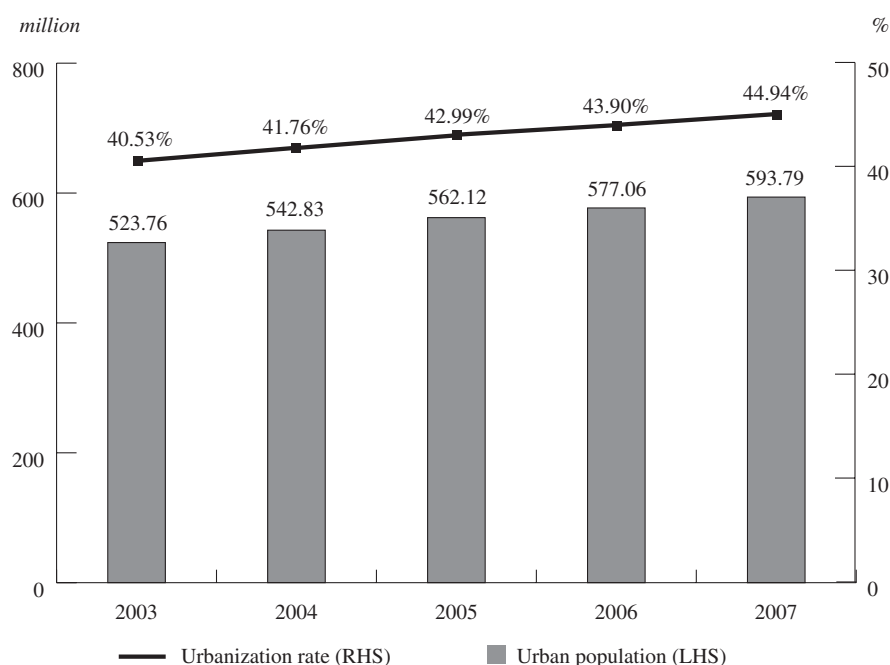
## INDUSTRY OVERVIEW

### Urbanization in the PRC

The PRC’s economic growth has led to the urbanization of the country in recent years. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), the urbanization rate of the PRC, defined as the urban population as a percentage of the total population, increased from approximately 40.5% in 2003 to approximately 44.9% in 2007. We believe that this trend of urbanization will lead to increased consumer spending as per capita disposable income is higher in cities than rural areas in the PRC. We expect that this trend will have a positive impact on our business.

The following chart sets forth the growth of the urban population and the urbanization rate in China from 2003 to 2007:

**Urbanization in the PRC (2003–2007)**



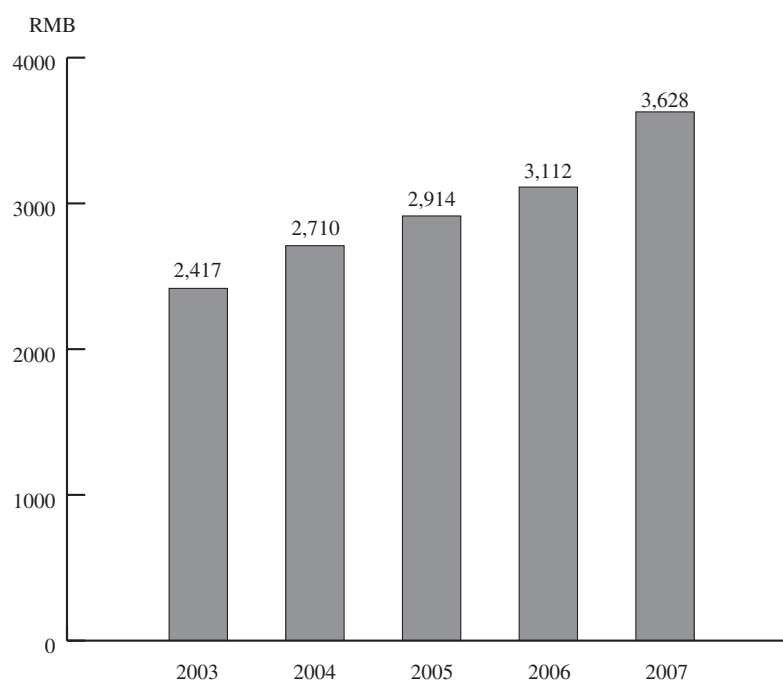
Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

## INDUSTRY OVERVIEW

### Growth in food consumption of urban households in the PRC

Rising disposable income of urban households has contributed to the growth in per capita food consumption in the PRC. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), from 2003 to 2007, the annual per capita food consumption expenditures of urban households increased from approximately RMB2,417 in 2003 to approximately RMB3,628 in 2007, representing a CAGR of approximately 10.7%. The chart below sets forth the annual per capita food consumption expenditure of urban households in the PRC from 2003 to 2007:

**Annual per capita food consumption expenditure of urban households in the PRC (2003–2007)**



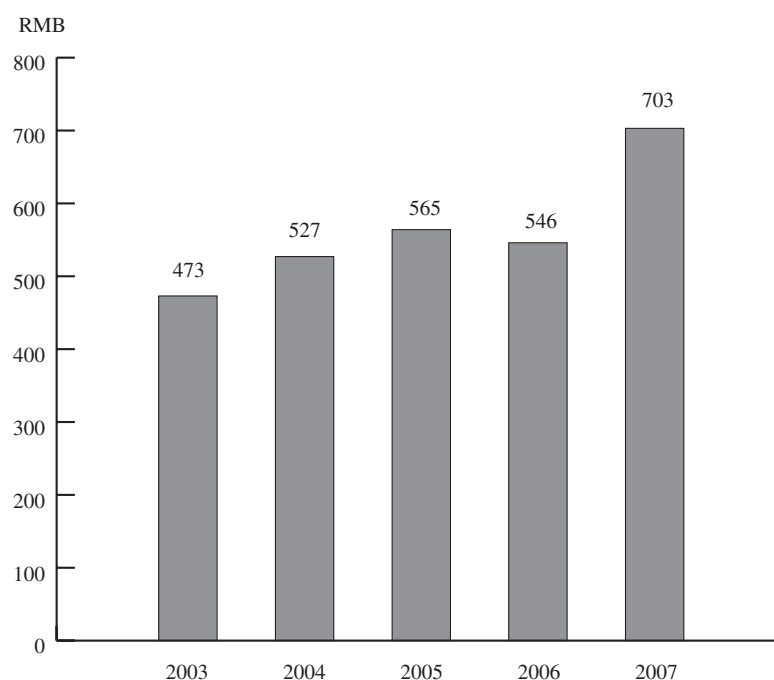
Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

## INDUSTRY OVERVIEW

### Growth in consumption of meat, poultry and processed products of urban households in the PRC

According to the National Bureau of Statistics of China (中華人民共和國國家統計局), from 2003 to 2007, the annual per capita expenditure of urban households in the PRC on meat, poultry and processed products increased from approximately RMB473 to approximately RMB703, representing a CAGR of approximately 10.41%. The following chart sets forth the annual per capita expenditure of urban households in the PRC on meat, poultry and processed products expenditure from 2003 to 2007:

**Annual per capita expenditure of urban households in the PRC on meat, poultry and processed products (2003-2007)**



*Source: National Bureau of Statistics of China (中華人民共和國國家統計局)*

## INTRODUCTION OF SAUSAGE CASINGS AND COLLAGEN SAUSAGE CASINGS

### Introduction of sausage casings

Sausage casings are raw materials which contain the filling of sausages. They may be edible or inedible. In terms of raw materials used, sausage casings may be broadly classified into natural sausage casings and artificial sausage casings. Natural sausage casings are made from layers of intestines of livestock such as pig, sheep and cow. Artificial sausage casings are made from collagen, cellulose or polyvinyl chloride, of which only collagen sausage casings are edible.

## INDUSTRY OVERVIEW

According to China Sausage Casing Net (中國腸衣網), in terms of raw materials used, edible sausage casings may be classified into the following categories:

	Types	Raw materials
Natural sausage casings	Salted sausage casings	Livestock intestines
	Dried sausage casings	Livestock intestines
Artificial sausage casings	Collagen sausage casings	Cattle’s inner skins

### Functions of sausage casings

Sausage casings serve as packaging materials for sausages. According to China Sausage Casing Net (中國腸衣網), sausage casings can perform the following functions:

- (i) to prevent sausages from being damaged during the manufacturing processes;
- (ii) to form and standardize the shape of sausages; and
- (iii) to prolong the shelf life of sausages.

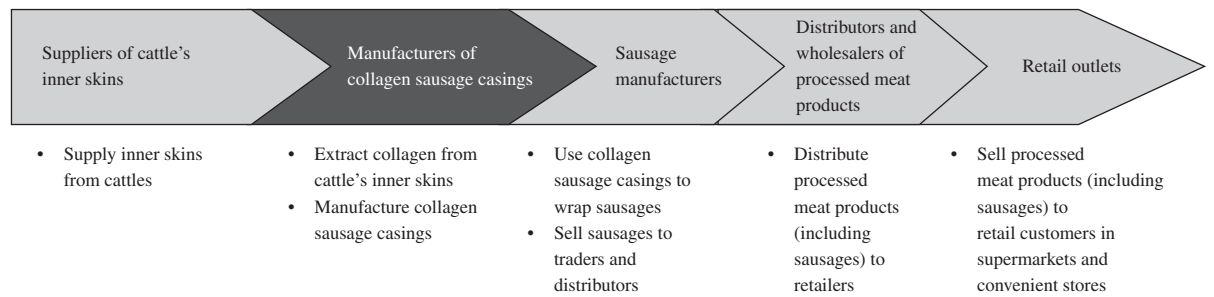
During the production process of sausages, processed meat is stuffed into the casings. Sausages are then further packed for subsequent storage and delivery.

### Introduction of collagen sausage casings

Collagen is a kind of long, fibrous structural protein, and is the main colloid in connective tissues in animal skins and the main protein in mammal skins. Tough bundles of collagen are a major component of most tissues. Collagen has great tensile strength and provides skin strength and elasticity, and plays a role in tissue development.

Collagen sausage casings are similar to natural sausage casings in certain attributes, such as being elastic, and able to endure heat during cooking due to their high tensile strength. Accordingly, collagen sausage casings are used by many sausage manufacturers.

The following sets forth the position of collagen sausage casing manufacturers in the industrial chain of the sausage industry in the PRC:



## INDUSTRY OVERVIEW

As the demand for sausages in the PRC has increased, the demand for sausage casings has grown accordingly. However, the requirements for the production technologies and product quality of sausage casings are becoming increasingly stringent. The manufacturers of sausage casings have been looking for other types of sausage casings to substitute for natural sausage casings. Collagen sausage casings, which can provide consistent quality as well as flexible size, thickness and length, are well suited to automated production of sausages and thus are being widely adopted by more and more medium to large scale sausage manufacturers in the PRC.

### **Advantages of collagen sausage casings as compared to natural sausage casings**

As compared to natural sausage casings, collagen sausage casings have the following distinct advantages:

*(i) Quality and diameter uniformity*

Collagen sausage casings: (i) have various specifications in terms of length, diameter and thickness; (ii) have unique texture; (iii) have higher strength; (iv) have unique bite; and (v) provide a high level of consistency and uniformity of product.

*(ii) Economies of scale in production*

Due to the special characteristics of collagen sausage casings, they are suitable for being used in highly automated mass production. This is favored by sausage manufacturers who focus on improving production efficiency and expanding production capacity. The supply of raw materials used in the manufacture of natural sausage casings is relatively less stable as compared with collagen sausage casings, and it is more difficult to manufacture natural sausage casings at uniform shapes. As such, the supply of natural sausage casings may not meet the demand of large scale production of sausages.

*(iii) Multi-functionality*

Apart from meat sausages, collagen sausage casings can also be used to wrap for different types of food such as fruit and vegetable products, and can be manufactured in various specifications to meet different customer needs.

*(iv) Easy to be packed, stored and transported*

Due to the even texture and high level of consistency and uniformity, collagen sausage casings can be easily compressed into tubular shape or wound into rolls when being packed. Thus, they require less space for storage and transportation compared to natural sausage casings. The tubular collagen sausage casings after compression can be further cut into segments of required length or weight and packed at different sizes. Furthermore, collagen sausage casings can be stored and transported at room temperature without special treatment (such as salting) and have a shelf life of two to three years. The characteristics of collagen sausage casings remain unchanged with the change of temperature in the environment.

We believe that collagen sausage casings, due to their distinct advantages as mentioned above, will gradually capture a larger share in the sausage casing market in the PRC.



## INDUSTRY OVERVIEW

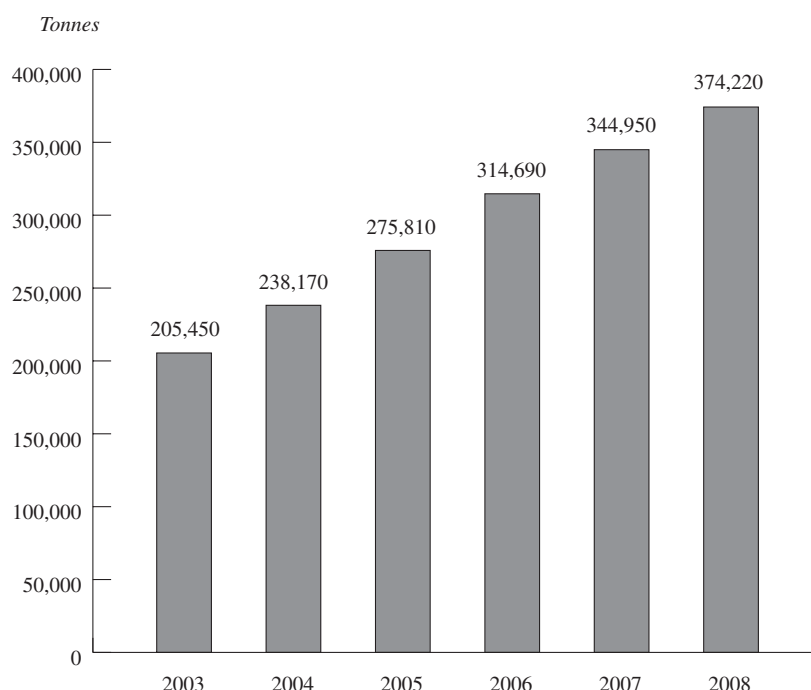
Our Group has established a long-term business relationship with our major customers, a number of which are leading manufacturers of processed meat products and/or sausages in the PRC, including Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Yurun Group Co., Ltd. (南京雨潤食品有限公司), Zhongpin 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), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates. With the increase in the revenue of our Group from RMB178.3 million in the year ended 31 December 2006 to RMB454.1 million in the year ended 31 December 2008, representing a CAGR of approximately 59.6%, our aggregate sales to the above major customers increased from RMB46.1 million in the year ended 31 December 2006 to RMB234.2 million in the year ended 31 December 2008, representing a CAGR of 125.4%. As such, our Directors consider that many leading sausage manufacturers in the PRC have increased the use of collagen sausage casings in recent years.

### MARKET FOR PROCESSED MEAT PRODUCTS AND SAUSAGES IN THE PRC

#### Market for processed meat products in the PRC

Based on the Access Asia Report, from 2003 to 2008, the retail sales volume of processed meat products increased from approximately 205,450 tonnes to 374,220 tonnes, representing a CAGR of approximately 12.74%. The following chart sets forth the retail sales volume of processed meat products (including sausages) from 2003 to 2008:

**Retail sales volume of processed meat products (including sausages) in the PRC (2003–2008)**



Source: Access Asia Report

Note: According to the Access Asia Report, processed meat products include canned meat products and chilled meat products. Chilled meat products include sausages, cooked meat, sliced meat and meat snacks.

## INDUSTRY OVERVIEW

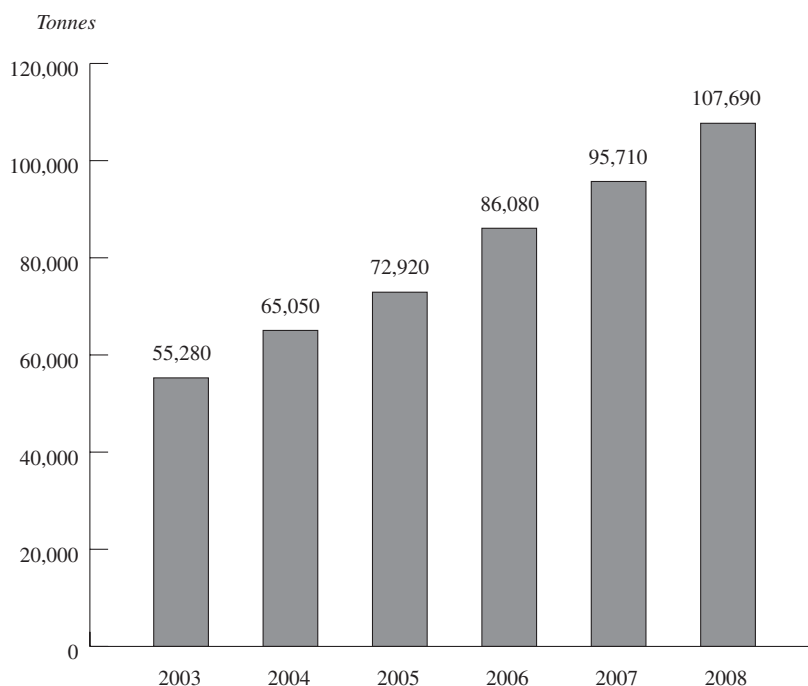
According to the Access Asia Report, the growth of the market of processed meat products in the PRC is mainly attributable to the following factors:

- (i) increases in spending power of consumers have led to higher consumer aspirations and ability to make more frequent purchases of processed meat products;
- (ii) the rationalization and consolidation of the domestic industry have improved industry productivity and profitability, and raised the level of market supply;
- (iii) the development of more integrated distribution systems and infrastructure throughout the PRC has led to better distribution from manufacturers to retailers around the country; and
- (iv) increased market penetration of more organized retail outlets, including those with display cabinets of chilled and frozen products, has created a larger overall outlet for processed meat products across the PRC.

### Market for sausages in the PRC

The PRC’s ongoing economic development and urbanization has driven the fast development of the PRC’s sausage market. As compared to fresh meat, the convenience of cooking and longer shelf life of sausages have contributed to the increasing consumption of sausages in the PRC. Based on the Access Asia Report, from 2003 to 2008, the retail sales volume of sausages increased from approximately 55,280 tonnes to 107,690 tonnes, representing a CAGR of approximately 14.27%. The following chart sets forth the retail sales volume of sausages from 2003 to 2008:

**Retail sales volume of sausages in the PRC (2003–2008)**



Source: Access Asia Report

## INDUSTRY OVERVIEW

Prior to the 1980s, the sausage market in the PRC was dominated by Chinese-style wind-dried sausages, the manufacture of which was mostly conducted in workshops and small factories. However, the PRC’s reform and opening-up policy has led to the entry of Western-style products and has affected the eating habits of the Chinese people.

In major PRC cities, supermarkets have gradually replaced traditional food markets in selling food to consumers. The extensive penetration of supermarket chains in the past decade in the PRC facilitated the distribution and popularity of Western-style sausages, which require transportation and storage at low temperature.

### MARKET FOR SAUSAGE CASINGS IN THE PRC

#### Size of the sausage casings market in the PRC

According to the Zhongjing Zongheng Report, the total production volume of sausage casings in the PRC in 2008 was 675,900 barrels, which contained approximately 12,884 million meters of sausage casings.

The sausage manufacturers in the PRC which are currently using collagen sausage casings in their production normally purchase collagen sausage casings from us and/or from agents and wholesalers of collagen sausage casings imported into the PRC by our foreign competitors.

According to the ranking published by China Meat Association (中國肉類協會), Wuzhou Shenguan was the largest collagen sausage casing manufacturer in the PRC from 2006 to 2008 based on a set of criteria including, but not limited to, total assets, revenue, market share and market reputation. In addition, in the “List of Powerful Enterprises in the Meat Products Industry of China in 2008” (2008中國肉類食品行業強勢企業名單) published by China Meat Association (中國肉類協會), Wuzhou Shenguan was ranked first in the category of “Enterprises of meat sausage casings and packing materials” (肉類腸衣及包裝物料製造企業). We believe that competition in the collagen sausage casings market in the PRC mainly comes from imported collagen sausage casings being distributed by the agents of foreign casing manufacturers.

#### Industry trends in the sausages market and the growing demand on collagen sausage casing products

We believe the following factors may stimulate the future growth of the PRC collagen sausage casing market:

(i) *Continuous consolidation in the PRC sausage product industry*

The PRC’s sausage industry is under consolidation, and medium-to-large sausage manufacturers are capturing an increasing market share. Compared to small workshops and factories, medium-to-large sausage manufacturers have placed greater focus upon using high-quality casings in order to satisfy the requirements of consumers and maintain their competitive edge.

As compared to natural sausage casings, collagen sausage casings provide consistent quality and fit well with large scale automated sausage production, and are increasingly widely adopted by medium to large scale sausage manufacturers in the PRC.

## INDUSTRY OVERVIEW

### *(ii) Increase in urban population and disposable income*

Economic development and growing affluence have increased consumer spending power and driven the demand for processed meat products in the PRC. Changes in lifestyle and increasing per capita income may encourage urban consumers to seek more convenient forms of food consumption. The convenience of cooking and longer shelf life of sausages contribute to the growth in the consumption of sausages in the PRC, which have in turn increased the demand for sausage casings.

The opening-up of the PRC market has led to the entry of Western-style food products. Western-style sausages have become increasingly popular and common among Chinese consumers. Sausage manufacturers prefer using collagen sausage casings in the manufacture of Western-style sausages which have high requirements for the quality of sausage casings. The growing demand for Western-style sausages in the PRC is expected to drive the development of collagen sausage casing market in the PRC.

### *(iii) Increased penetration of modern chain stores*

The rapid development and increasing penetration of modern chain stores in the PRC, together with the improved transportation network across the nation, have made sausages (especially Western-style sausages, which require transportation and storage at low temperature) more accessible to the mass market in both the urban and rural areas and have made the consumption of sausages much more convenient and affordable.

We believe the increasing prevalence of modern chain stores will continue to drive the consumption of sausage products, especially Western-style sausages, in both urban and rural areas, which will in turn drive the growth of the collagen sausage casing market.

### *(iv) Expanded range of products*

In recent years, manufacturers in the PRC have expanded the range of new sausage products with different ingredients and flavors to enlarge their customer base. New types of sausage products which contain food products like vegetables and fruits have been developed in the PRC.

Compared to natural sausage casings, collagen sausage casings can adapt to various sausage products more easily and fit the new types of sausage products. We expect collagen sausage casings will gradually capture a larger share in the sausage casing market in the PRC.

## INDUSTRY OVERVIEW

### SOURCES OF INFORMATION

#### Access Asia

Access Asia is an independent provider of Asian market intelligence for companies and institutions. Access Asia’s database includes industry and consumer market reports, company profiles of industry leaders in the region, biographies of key business and political figures, and Asian country profiles. Access Asia produces market research reports covering industrial and consumer markets principally in the PRC and Hong Kong. The Access Asia Report is an industry research report published by Access Asia and is available for sale.

#### Zhongjing Zongheng

Zhongjing Zongheng is an independent industry, market research and project consultancy services provider in the PRC. The Zhongjing Zongheng Report is an industry research report published by Zhongjing Zongheng and is available for sale.

#### China Sausage Casing Net (中國腸衣網) and China Meat Association (中國肉類協會)

China Sausage Casing Net (中國腸衣網) ([www.chinacasing.cn](http://www.chinacasing.cn)) is one of the official websites of China Meat Association (中國肉類協會), a not-for-profit national organization registered with the Ministry of Civil Administration of the PRC (中華人民共和國民政部). China Meat Association (中國肉類協會) is a member of International Meat Secretariat. The members of China Meat Association (中國肉類協會) include state-owned meat food companies, meat slaughtering entities, and meat processing and refrigerating enterprises. Headquartered in Beijing, the PRC and with regional offices in Shenyang, Tianjin, Wuhan, Chengdu, and Xi’an, China Meat Association (中國肉類協會) is engaged in the improvement of self-governance and the enhancement of the supervision of the meat industry in the PRC. It is also engaged in the research of the meat industry in the PRC and provision of consulting services to enterprises in the meat industry. The information extracted from the China Sausage Casing Net (中國腸衣網) for disclosure in this document is not commissioned by our Company, and can be accessed by the public free of charge.

#### National Bureau of Statistics of China

The National Bureau of Statistics of China (中華人民共和國國家統計局) is an agency directly under the State Council in charge of statistics and economic accounting in the PRC. The information disclosed in this document from the National Bureau of Statistics is official public information and was prepared in the ordinary course of the activities of the National Bureau of Statistics of China (中華人民共和國國家統計局).

## REGULATIONS

### PRC REGULATORY OVERVIEW

The laws regulating the production, distribution and sale of artificial sausage casings, raw meats and highly-processed meat products in the PRC include, but not limited to, the Food Safety Law, the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “Environmental Protection Law”) and other PRC laws and regulations relating to the standardization of production and hygiene of food products. Certain important provisions in the above laws and regulations relating to the sausage casing industry and the meat product industry are set out below.

#### *The Food Safety Law of the PRC (《中華人民共和國食品安全法》)*

The Food Safety Law was passed at the 7th meeting of the Standing Committee of the Eleventh National People’s Congress which was closed on 28 February 2009. The Food Safety Law was implemented on 1 June 2009 and the Food Hygiene Law promulgated on 30 October 1995 was repealed at the same time.

The Food Safety Law established a mechanism to assess food safety risks. Food production using chemicals (other than food additives) and other substances that may be hazardous to human health is prohibited. Together with the Food Safety Law, the State establishes laws and regulations on international food standards and the public health administration authority of the State Council is responsible for setting and publicizing the national food safety standards. The department for food safety supervision and administration is not permitted to exempt any food from its inspection. When a food producer discovers that its products do not meet the food safety standards, it is required to immediately cease production and recall those products from the market.

Anyone who violates the provisions of the Food Safety Law is liable for civil compensation, penalties and/or fines.

#### *The Regulations on the Implementation of the Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》)*

In order to facilitate the implementation of the Food Safety Law, the Regulations on the Implementation of the Food Safety Law of the PRC were promulgated and came into force on 8 July 2009. Such regulations further specify that food production enterprises are primarily responsible for food safety, increase the requirements for precautionary measures and the control of production and operation, detail relevant duties of responsible parties as stated in the Food Safety Law, strengthen the responsibilities for local governmental and supervisory authorities, and provide substantial requirements for launching food safety assessment, quality examination and recall procedures.

## REGULATIONS

### *The Standardization Law of the PRC (《中華人民共和國標準化法》)*

The Standardization Law of the PRC, which came into effect on 1 April 1989, is the legal framework for the development of national standards and application for all industries in the State. Artificial sausage casings, raw meats and highly-processed meat products must conform to different standards, which primarily include:

- GB 14967-94 hygiene standard for collagen sausage casings
- GB 2707-2005 hygiene standard for fresh (frozen) poultry meat
- GB 2726-2005 hygiene standard for cooked meat products
- GB 19303-2003 production hygiene standard for cooked meat product enterprises
- GB 13457-1992 water pollutant discharge standard for meat processing industry

Where the products manufactured or sold by food production or trading enterprises do not conform to the standards, such enterprises may be ordered by the relevant government departments to suspend production or sales of their products with their products being confiscated, destroyed under supervision or undergoing necessary technical treatments, or may have the relevant products and illegal gains confiscated and be fined. If the violation causes serious consequences and constitutes an offence, the violating enterprises and the persons directly responsible for the violation may subject to criminal liabilities as imposed by the judicial authorities.

### *The Measures on the Administration of Food Hygiene License (《食品衛生許可證管理辦法》)*

The Measures on the Administration of Food Hygiene Licence (the “Measures on the Administration of Licence”) implemented on 1 June 2006 aim at regulating the application and issuance of food hygiene licenses, ensuring the effective implementation of food hygiene supervision and administration by the hygiene administration authorities, maintaining normal food production and operation and protecting the health of consumers. The hygiene administration authority of the local government issues the food hygiene licenses to food production operators in accordance with the Measures on the Administration of License. Anyone who violates the Measures on the Administration of Licence will be subject to various penalties as stipulated under such measures.

### *The Measures on Administrative Punishment for Food Hygiene (《食品衛生行政處罰辦法》)*

The Measures on Administrative Punishment for Food Hygiene (the “Measures on Administrative Punishment”) implemented on 15 March 1997 aim at standardizing the administrative punishments in respect of food hygiene, ensuring and supervising the effective implementation of administrative management by the hygiene administration authorities, and protecting the legal rights of food production operators.

If the Measures on Administrative Punishment are not observed, subject to the level of the violation, punishments may include single or combined penalties, confiscation of illegal gains, revocation of hygiene license, closing down of illegal operation activities and suspension of production and operation.

### *The Provisional Detailed Rules for Administration and Supervision of the Quality and Safety in Food Production and Processing Enterprises (《食品生產加工企業質量安全監督管理實施細則(試行)》)*

The Provisional Detailed Rules for Administration and Supervision of the Quality and Safety in Food Production and Processing Enterprises (the “Rules for Administration and Supervision”) promulgated by the State Administration of Quality Supervision, Inspection and Quarantine came into force on 1 September 2005 and regulate the administration and supervision of the quality and safety in industrially processed and manufactured food for human consumption.



## REGULATIONS

Pursuant to the Rules for Administration and Supervision, food production and processing enterprises are required to conform to the following principal requirements:

- obtain a food production license in accordance with the required procedures, and the processed food produced must pass the inspection and be imprinted (labeled) with the mark for Market Approval for Food Quality and Safety (the “QS mark”) prior to sales;
- use raw materials and additives in the production of processed food products which comply with the relevant regulations of the State, and the use of non-edible raw and auxiliary materials in food processing is prohibited;
- use clean and non-contaminating materials for food packaging, for those food items that have no individual packaging, if the wholesale package of such food items can bear labels, then such wholesale package shall have proper labeling;
- use safe, clean and non-contaminating containers, packaging, tools and equipment for storing, delivering, loading and unloading food products;
- if there is domestic consumption, an enterprise producing and processing export food shall apply for a food production license; and
- in the event of any quality problem arising in relation to food products with the QS mark during the quality assurance period not caused by improper use or storage by the consumer, the producers or the sellers shall bear the legal liabilities in accordance with their obligations under the law.

When any enterprise violates the Rules for Administration and Supervision, the supervisory authorities for quality and technology, depending on the circumstances, may impose certain administrative punishments including suspension of production and sales, rectification within prescribed time, confiscation of illegal gains, fine and/or revocation of the production license.

### *The Law of Product Quality of the PRC (《中華人民共和國產品質量法》)*

The Law of Product Quality of the PRC (the “Product Quality Law”) came into effect on 1 September 1993 and was amended on 8 July 2000. The Product Quality Law provides that producers are required to establish a comprehensive internal management system for product quality and strictly regulate the duties of different positions in the production line and fulfill their respective responsibilities on product quality and the assessment process. Producers must assume the responsibilities for product quality and their products shall pass the quality checks.

Those violating the Product Quality Law are subject to various penalties, including being ordered to take corrective actions within a prescribed time, suspension of business, confiscation of illegal gains and fines depending on the situation. If the violation is serious, the business license may be revoked. For serious violations which constitute an offence, the enterprises and the persons directly responsible may be subject to criminal liabilities.



## REGULATIONS

### *The Regulations on Administration of Hygiene Registration of Export Food Manufacturing Enterprises* (《出口食品生產企業衛生註冊登記管理規定》)

The Regulations on Administration of Hygiene Registration of Export Food Manufacturing Enterprises (the “Export Food Hygiene Registration Regulations”) were promulgated on 19 April 2002 and came into effect on 20 May 2002. The Export Food Hygiene Registration Regulations require all enterprises engaging in the manufacturing, processing or storage of export food in the PRC to obtain hygiene registration certificates before the commencement of manufacturing, processing or storage of export food. Applications for inspection will not be accepted by the import and export quarantine authorities on the export food manufactured by enterprises without hygiene registration.

Registration procedures for the export food manufacturing enterprises in the State are administered by the Certification and Accreditation Administration of the People’s Republic of China (“CAAC”). Hygiene registration certificates are issued by the CAAC and valid for a period of three years.

Pursuant to the Export Food Hygiene Registration Regulations, enterprises violating the regulations shall bear the relevant legal responsibilities.

### *The Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》)

The Environmental Protection Law was promulgated in 1989. The purposes of the Environmental Protection Law are to protect and enhance living environment, prevent and control pollution and other public hazards, and safeguard human health. The State Administration for Environmental Protection is responsible for the implementation of uniform supervision and administration of environmental protection work in the State and formulation of the national waste discharge standards. Local environmental protection bureaus at county level or above are responsible for the environmental protection in their respective jurisdictions.

Enterprises discharging pollutants need to apply for registration as required by the environmental protection administration authority under the State Council. Enterprises discharging pollutants exceeding the state or local discharge standards may be levied fees for excessive discharge and be responsible for eliminating such pollution.

Various penalties may be imposed against persons or enterprises in violation of the Environmental Protection Law, including warnings, fines, orders for rectification within a specific time, orders for cessation of production, orders for re-installation of pollution prevention and control facilities which have been removed without approval or left unused, imposition of administrative sanctions against the responsible persons, or orders for closing down. Any of the above penalties may be imposed by governmental authorities with additional fines. Entities committing serious violations of the Environmental Protection Law may be liable to compensate the victims, and persons directly responsible may be subject to criminal liabilities.

## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

### **ORIGIN OF OUR BUSINESS**

Our business originated from the establishment of Wuzhou Protein Factory, a State-owned factory, in July 1989. Wuzhou Protein Factory was principally engaged in the manufacture of edible collagen sausage casing products, and was owned as to 80% by SASAC Wuzhou and 20% by Wuzhou Zhongheng prior to our acquisition of its entire ownership rights, including all assets and liabilities, in November 2004.

On 5 November 2004, SASAC Wuzhou and Wuzhou Zhongheng, as transferors, entered into the First Acquisition Agreement with Exceltech and C.T. Company, as transferees, for the transfer of the entire ownership rights, including all the assets and liabilities of Wuzhou Protein Factory, for a consideration of RMB75,000,000. The consideration was arrived at with reference to the auction price of Wuzhou Protein Factory of RMB75,000,000 which was approved by the Wuzhou Government on 27 July 2004.

On 30 November 2004, the Second Acquisition Agreement was entered into between Exceltech, C.T. Company and Wuzhou Shenguan, pursuant to which Wuzhou Shenguan agreed to purchase the entire ownership rights, including all the assets and liabilities of Wuzhou Protein Factory, for a consideration of RMB75,000,000. The consideration of the Second Acquisition Agreement was arrived at after arm’s length negotiations between the parties with reference to the original consideration of RMB75,000,000 under the First Acquisition Agreement.

In order to clarify certain aspects of the acquisition of Wuzhou Protein Factory by Wuzhou Shenguan, a supplemental agreement dated 23 February 2006 was entered into between SASAC Wuzhou, Wuzhou Zhongheng, Exceltech, C.T. Company and Wuzhou Shenguan, pursuant to which the parties thereto affirmed the following: (i) Exceltech and C.T. Company, as investors of Wuzhou Shenguan, entered into the First Acquisition Agreement on behalf of Wuzhou Shenguan, and all rights and obligations of Exceltech and C.T. Company under the First Acquisition Agreement belonged to Wuzhou Shenguan; (ii) the consideration under the First Acquisition Agreement paid by Exceltech and C.T. Company was paid for and on behalf of Wuzhou Shenguan; and (iii) all ownership rights, including all the assets and liabilities of Wuzhou Protein Factory acquired by Exceltech and C.T. Company were under the ownership of Wuzhou Shenguan.

As advised by C&F, the acquisition of the entire ownership rights of Wuzhou Protein Factory by Wuzhou Shenguan is legal, valid and enforceable.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

### WUZHOU SHENGUAN

Wuzhou Shenguan is a sino-foreign equity joint venture enterprise established in Wuzhou, the PRC, on 26 November 2004 with a registered capital of RMB30,000,000. The initial joint venture agreement dated 5 November 2004 and the articles of association of Wuzhou Shenguan were approved by the Wuzhou Government on 26 November 2004. Since the establishment of Wuzhou Shenguan, Ms. Zhou, Mr. Low and Mr. Wei have been the directors of Wuzhou Shenguan.

At the time of its establishment, the ownership structure of Wuzhou Shenguan was as follows:

Name	Registered capital contributed (RMB)	Equity interest
Exceltech	13,500,000	45.00%
C.T. Company	9,990,000	33.30%
Xiansheng Division	6,510,000	21.70%
<b>Total</b>	<b>30,000,000</b>	<b>100.00%</b>

Exceltech is a sole proprietorship registered in Malaysia which is principally engaged in export and trading, and has been owned by Mr. Low at relevant times. Mr. Low is a non-executive Director and has nearly 17 years of experience in the collagen sausage casing industry. Prior to the establishment of Wuzhou Shenguan, Mr. Low, through Exceltech, started his business relationship with Wuzhou Protein Factory for the resale of edible collagen sausage casing products in Malaysia in 1993, and has maintained the relationship with Wuzhou Shenguan after the acquisition of the entire ownership rights of Wuzhou Protein Factory by Wuzhou Shenguan in November 2004. Based on the non-competition undertaking entered into by Mr. Low in favor of our Company and the confirmation issued by Mr. Low and Exceltech regarding their future commitment in purchasing edible collagen sausage casing products only from our Group, our Directors are of the view that there is no competition between our Group and Exceltech. For more information on the non-competition undertaking made by Mr. Low, please refer to the paragraph headed “Non-competition undertaking” under the section headed “Relationship with our Controlling Shareholders” in this document.

C.T. Company is an entity registered in California, the United States which is principally engaged in international trading, and has been owned by Mr. Wei at relevant times. Mr. Wei has been in the export and trading industry for over 10 years. Prior to the establishment of Wuzhou Shenguan, Mr. Wei, through C.T. Company, started his business relationship with Wuzhou Protein Factory as an agent to locate new customers and for the resale of edible collagen sausage casing products in South America in 1996. The business relationship between Mr. Wei and Wuzhou Shenguan has continued since the acquisition of the entire ownership rights of Wuzhou Protein Factory by Wuzhou Shenguan in November 2004. Based on the non-competition undertaking entered into by Mr. Wei in favor of our Company and the confirmation issued by Mr. Wei and C.T. Company regarding their future commitment in purchasing edible collagen sausage casing products only from our Group, our Directors are of the view that there is no competition between our Group and C.T. Company. For more information on the non-competition undertaking made by Mr. Wei, please refer to the paragraph headed “Non-competition undertaking” under the section headed “Relationship with our Controlling Shareholders” in this document.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

Xiansheng Division was a partnership established in the PRC on 24 November 2004, which was owned as to 95.40% by Ms. Zhou and 4.60% by Ms. Cai Yueqing (蔡月卿女士), both our executive Directors, before its de-registration on 8 October 2006.

Pursuant to an equity transfer agreement dated 31 May 2006 entered into between Exceltech and Hong Kong Shenguan, Exceltech agreed to transfer its 24.79% equity interest in Wuzhou Shenguan to Hong Kong Shenguan in consideration that Hong Kong Shenguan should pay the attributable registered capital of Wuzhou Shenguan not yet paid by Exceltech in an amount of RMB7,437,597.24. The equity transfer was approved by the Wuzhou Government on 12 June 2006.

Pursuant to an equity transfer agreement dated 31 May 2006 entered into between C.T. Company and Hong Kong Shenguan, C.T. Company agreed to transfer its 20.00% equity interest in Wuzhou Shenguan to Hong Kong Shenguan in consideration that Hong Kong Shenguan should pay the attributable registered capital of Wuzhou Shenguan not yet paid by C.T. Company in an amount of RMB6,000,000. The equity transfer was approved by the Wuzhou Government on 12 June 2006.

Pursuant to an equity transfer agreement dated 31 May 2006 entered into between Xiansheng Division and Wuzhou Xiansheng, Xiansheng Division agreed to transfer its 21.70% equity interest in Wuzhou Shenguan to Wuzhou Xiansheng for an aggregate consideration of RMB6,510,000, of which RMB3,050,000 was paid by Wuzhou Xiansheng to Xiansheng Division and the rest of the consideration was paid by the transfer of the attributable registered capital of Wuzhou Shenguan not yet paid by Xiansheng Division in an amount of RMB3,460,000 to Wuzhou Xiansheng. The equity transfer was approved by the Wuzhou Government on 12 June 2006.

After this equity transfers, the ownership structure of Wuzhou Shenguan was as follows:

Name	Registered capital contributed (RMB)	Equity interest
Hong Kong Shenguan	13,438,000	44.79%
Exceltech	6,062,000	20.21%
C.T. Company	3,990,000	13.30%
Wuzhou Xiansheng	6,510,000	21.70%
<b>Total</b>	<b>30,000,000</b>	<b>100.00%</b>

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

On 13 November 2006, Wuzhou Shenguan and Wuzhou Dongxu State-owned Assets Management Co., Ltd. (梧州市東旭國有資產經營有限公司) entered into a sale and purchase agreement, pursuant to which Wuzhou Shenguan agreed to acquire certain assets (which mainly comprised land and buildings) owned by Wuzhou Aquatic Products Company (梧州市水產公司), which was controlled by Wuzhou Dongxu State-owned Assets Management Co., Ltd. (梧州市東旭國有資產經營有限公司), for a consideration of RMB2,000,000 for the expansion of our old production site in Wuzhou. For further details of our production premises, please refer to the paragraphs headed “Production” and “Property Interests” under the section headed “Business” in this document.

On 27 June 2008, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB30,000,000 to RMB73,300,000 by the conversion of capital reserves in the amount of RMB35,911,884.10 and reserve funds in the amount of RMB7,388,115.90 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng contributed RMB19,394,070, RMB8,750,930, RMB5,758,900 and RMB9,396,100, respectively, by capitalizing their share in the capital reserves and reserve funds of Wuzhou Shenguan in proportion to their respective capital contribution to Wuzhou Shenguan. Their respective percentage of capital contribution in Wuzhou Shenguan remained unchanged.

After this increase in registered capital, the ownership structure of Wuzhou Shenguan was as follows:

Name	Registered capital contributed (RMB)	Equity interest
Hong Kong Shenguan	32,832,070	44.79%
Exceltech	14,812,930	20.21%
C.T. Company	9,748,900	13.30%
Wuzhou Xiansheng	15,906,100	21.70%
<b>Total</b>	<b>73,300,000</b>	<b>100.00%</b>

On 1 June 2009, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB73,300,000 to RMB84,300,000 by the conversion of capital reserves in the amount of RMB752,447 and reserve funds in the amount of RMB10,247,553 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng contributed RMB4,926,900, RMB2,223,100, RMB1,463,000 and RMB2,387,000, respectively, by capitalizing their share in the capital reserves and reserve funds of Wuzhou Shenguan in proportion to their respective capital contribution to Wuzhou Shenguan. Their respective percentage of capital contribution in Wuzhou Shenguan remained unchanged.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

After this increase in registered capital, the ownership of Wuzhou Shenguan was as follows:

Name	Registered capital contributed (RMB)	Equity Interest
Hong Kong Shenguan	37,758,970	44.79%
Exceltech	17,036,030	20.21%
C.T. Company	11,211,900	13.30%
Wuzhou Xiansheng	18,293,100	21.70%
<b>Total</b>	<b>84,300,000</b>	<b>100.00%</b>

Pursuant to an equity transfer agreement dated 26 May 2009 entered into between Hong Kong Shenguan and Wuzhou Xiansheng, Wuzhou Xiansheng agreed to transfer its 18.70% equity interest in Wuzhou Shenguan to Hong Kong Shenguan for a consideration of RMB15,764,100 with reference to the valuation of Wuzhou Shenguan as at 31 December 2008 assessed by an independent PRC valuer. The equity transfer was approved by the Wuzhou Government on 1 June 2009. Pursuant to a supplemental agreement dated 12 July 2009 entered into between Hong Kong Shenguan and Wuzhou Xiansheng, Hong Kong Shenguan and Wuzhou Xiansheng agreed that the consideration of RMB15,764,100 under the equity transfer agreement dated 26 May 2009 would be settled in Hong Kong Dollars in the amount of HK\$17,879,210.62. Save for Mr. He Xiangji (何祥吉先生), all the shareholders of Wuzhou Xiansheng have been involved in the management and day-to-day operations of Wuzhou Shenguan. As such shareholders of Wuzhou Xiansheng intend to continue to provide support to Wuzhou Shenguan after the aforesaid equity transfer in Wuzhou Shenguan from Wuzhou Xiansheng to Hong Kong Shenguan, Wuzhou Xiansheng remained a minority equity holder owning 3.00% equity interest in Wuzhou Shenguan.

Pursuant to an equity transfer agreement dated 27 May 2009 entered into between Exceltech and Excel Gather, Exceltech agreed to transfer its 20.21% equity interest in Wuzhou Shenguan to Excel Gather for a consideration of RMB17,036,030 with reference to the valuation of Wuzhou Shenguan as at 31 December 2008 assessed by an independent PRC valuer. The equity transfer was approved by the Wuzhou Government on 1 June 2009. Pursuant to a supplemental agreement dated 12 July 2009 entered into between Exceltech and Excel Gather, Exceltech and Excel Gather agreed that the consideration of RMB17,036,030 under the equity transfer agreement dated 27 May 2009 would be settled in Hong Kong dollars in the amount of HK\$19,321,798.80.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

Pursuant to an equity transfer agreement dated 27 May 2009 entered into between C.T. Company and Excel Gather, C.T. Company agreed to transfer its 13.30% equity interest in Wuzhou Shenguan to Excel Gather for a consideration of RMB11,211,900 with reference to the valuation of Wuzhou Shenguan as at 31 December 2008 assessed by an independent PRC valuer. The equity transfer was approved by the Wuzhou Government on 1 June 2009. Pursuant to a supplemental agreement dated 12 July 2009 entered into between C.T. Company and Excel Gather, C.T. Company and Excel Gather agreed that the consideration of RMB11,211,900 under the equity transfer agreement dated 27 May 2009 would be settled in Hong Kong dollars in the amount of HK\$12,716,230.01.

Pursuant to an equity transfer agreement dated 27 May 2009 entered into between Hong Kong Shenguan and Forever Gather, Hong Kong Shenguan agreed to transfer its 63.49% equity interest in Wuzhou Shenguan to Forever Gather for a consideration of RMB53,523,070 with reference to the valuation of Wuzhou Shenguan as at 31 December 2008 assessed by an independent PRC valuer. The equity transfer was approved by the Wuzhou Government on 1 June 2009. Pursuant to a supplemental agreement dated 12 July 2009 entered into between Hong Kong Shenguan and Forever Gather, Hong Kong Shenguan and Forever Gather agreed that the consideration of RMB53,523,070 under the equity transfer agreement dated 27 May 2009 would be settled in Hong Kong dollars in the amount of HK\$60,704,400.59.

After these equity transfers, the ownership structure of Wuzhou Shenguan was as follows:

Name	Registered capital contributed (RMB)	Equity Interest
Forever Gather	53,523,070	63.49%
Excel Gather	28,247,930	33.51%
Wuzhou Xiansheng	2,529,000	3.00%
<b>Total</b>	<b>84,300,000</b>	<b>100.00%</b>

According to various capital verification reports issued by independent PRC accounting firms, all the registered capital of Wuzhou Shenguan of RMB84,300,000 has been fully paid for. C&F also confirmed that the capital contribution to the registered capital of Wuzhou Shenguan, including the subsequent increase in registered capital, by each of the equity holders of Wuzhou Shenguan has been fully paid for within the stipulated time frame.



## HISTORY, REORGANIZATION AND GROUP STRUCTURE

### Wuzhou Xiansheng – A Minority Shareholder of Wuzhou Shenguan

Wuzhou Xiansheng is a company established in the PRC with limited liability on 28 May 2006 with a registered capital of RMB500,000. Wuzhou Xiansheng is principally engaged in the provision of consultancy services in respect of collagen and other biotechnologies.

At the time of its establishment, the ownership structure of Wuzhou Xiansheng was as follows:

Name	Registered capital contributed (RMB)	Equity interest
Ms. Zhou	362,000	72.40%
Ms. Cai Yueqing (蔡月卿女士)	23,000	4.60%
Mr. Shi Guicheng (施貴成先生)	23,000	4.60%
Mr. Mo Yunxi (莫運喜先生)	23,000	4.60%
Mr. Li Baowei (黎保偉先生)	23,000	4.60%
Mr. Ru Xiquan (茹希全先生)	23,000	4.60%
Ms. Li Ying (李瑩女士)	23,000	4.60%
<b>Total</b>	<b>500,000</b>	<b>100.00%</b>

Pursuant to an equity transfer agreement dated 18 March 2008 entered into between Ms. Zhou and Mr. He Xiangji (何祥吉先生), Mr. He agreed to purchase 36.80% of the equity interest in Wuzhou Xiansheng owned by Ms. Zhou for a consideration of RMB184,000. The equity transfer was approved by the Administration for Industry and Commerce, Wuzhou (梧州市工商行政管理局) on 24 March 2008.

After this equity transfer, the ownership structure of Wuzhou Xiansheng was as follows:

Name	Registered capital contributed (RMB)	Equity interest
Mr. He Xiangji (何祥吉先生)	184,000	36.80%
Ms. Zhou	178,000	35.60%
Ms. Cai Yueqing (蔡月卿女士)	23,000	4.60%
Mr. Shi Guicheng (施貴成先生)	23,000	4.60%
Mr. Mo Yunxi (莫運喜先生)	23,000	4.60%
Mr. Li Baowei (黎保偉先生)	23,000	4.60%
Mr. Ru Xiquan (茹希全先生)	23,000	4.60%
Ms. Li Ying (李瑩女士)	23,000	4.60%
<b>Total</b>	<b>500,000</b>	<b>100.00%</b>



## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

Mr. He Xiangji (何祥吉先生) owns 90% of the registered capital of Zhongshan Defu Meat Products Co., Ltd. (中山市得福肉食製品有限公司), a company established in the PRC with limited liability on 29 August 2006, which is principally engaged in the processing and sales of dried meat products. Mr. He Xiangji (何祥吉先生) has been in the processed food industry for over 10 years. Mr. He Xiangji (何祥吉先生) started his business relationship with Wuzhou Protein Factory in 2003 as a purchaser of our edible collagen sausage casing products and has maintained the relationship with Wuzhou Shenguan since the acquisition of the entire ownership rights of Wuzhou Protein Factory by Wuzhou Shenguan in November 2004.

Each of Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生), Mr. Mo Yunxi (莫運喜先生) and Mr. Li Baowei (黎保偉先生) is a Deputy General Manager of Wuzhou Shenguan. Mr. Ru Xiquan (茹希全先生) is the Chief Accountant of Wuzhou Shenguan. Ms. Li Ying (李瑩女士) is an employee of Wuzhou Shenguan. Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生) and Mr. Ru Xiquan (茹希全先生) are also our executive Directors.

Save as disclosed above and in the paragraph headed “Investment in Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司)” under the section headed “Relationship with Our Controlling Shareholders” in this document, each of Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生), Mr. Mo Yunxi (莫運喜先生), Mr. Ru Xiquan (茹希全先生), Mr. Li Baowei (黎保偉先生), Ms. Li Ying (李瑩女士) and Mr. He Xiangji (何祥吉先生) has no other relationship with our Company and our connected persons.

Mr. He Xiangji (何祥吉先生) has not been involved in the management and operation of Wuzhou Xiansheng. Since the date of Wuzhou Xiansheng’s establishment, Ms. Zhou has been the sole director and legal representative of Wuzhou Xiansheng.

### **SUBSIDIARIES**

#### **Shenguan Biological**

Shenguan Biological is a company established in the PRC with limited liability on 8 April 2008 with a registered capital of RMB10,000,000. It has been a wholly-owned subsidiary of Wuzhou Shenguan since its establishment. On 22 May 2009, its sole equity holder, Wuzhou Shenguan, resolved to increase the registered capital of Shenguan Biological from RMB10,000,000 to RMB30,000,000. As at 31 May 2009, Wuzhou Shenguan had fully settled the increased amount of RMB20,000,000 in the registered capital of Shenguan Biological. Shenguan Biological is principally engaged in the manufacture and sales of collagen sausage casing, and the construction of standard industrial plants.

#### **Shensheng Jiaoyuan**

Shensheng Jiaoyuan is a company established in the PRC with limited liability on 29 April 2009 with a registered capital of RMB10,000,000. It has been a wholly-owned subsidiary of Wuzhou Shenguan since its establishment. Shensheng Jiaoyuan is principally engaged in the provision of consultancy services in respect of collagen technology, and the investment and construction of industrial plants.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

### Wuzhou Xingke

Wuzhou Xingke was a company established in the PRC with limited liability on 31 December 2005 with a registered capital of RMB500,000. Pursuant to an equity transfer agreement dated 3 June 2008 entered into between Shenguan Biological and Wuzhou Xingke, Shenguan Biological agreed to purchase the entire equity interest in Wuzhou Xingke and its land use rights in respect of the land located at Wuzhou Industrial Park (梧州市工業園) for a consideration of RMB1,750,000, which was arrived at after arm’s length negotiations between the parties. Each of the then shareholders of Wuzhou Xingke, all of whom are Independent Third Parties, had signed an equity transfer agreement dated 8 July 2008 confirming the transfer of the entire equity interest in Wuzhou Xingke to Shenguan Biological. As Wuzhou Xingke has conducted no substantial operation since its establishment, we decided to cease the operation of Wuzhou Xingke. The de-registration application of Wuzhou Xingke was accepted by the Administration for Industry and Commerce, Wuzhou (梧州市工商行政管理局) on 24 March 2009. As at the Latest Practicable Date, Wuzhou Xingke was still under the de-registration process.

### Wuzhou Huaqiang

Wuzhou Huaqiang was a sino-foreign cooperative joint venture established in the PRC on 26 May 1993 with a registered capital of RMB578,180. Before Wuzhou Shenguan’s acquisition of the entire ownership rights in Wuzhou Protein Factory in 2004, the registered capital of Wuzhou Huaqiang was owned as to 75% by Wuzhou Protein Factory and 25% by Exceltech. As a result of the acquisition, Wuzhou Huaqiang became a subsidiary of Wuzhou Shenguan. As Wuzhou Huaqiang has conducted no substantial operation since 2004, we did not proceed with the registration procedures at the local administration for industry and commerce to reflect the change of ownership in Wuzhou Huaqiang. Subsequently, we decided to cease the operation of Wuzhou Huaqiang. The de-registration of Wuzhou Huaqiang was approved by the Administration for Industry and Commerce, Wuzhou (梧州市工商行政管理局) on 31 December 2006.

## PRC REGULATORY ISSUES

According to the “Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors” (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which came into force on 8 September 2006, and other relevant laws and regulations in the PRC, any equity transfer from a domestic equity holder to a foreign equity holder in an existing foreign-invested company, regardless whether the domestic equity holder and the foreign equity holder are connected or whether the foreign equity holder is an existing or new equity holder, is not subject to the M&A Rules. Such equity transfers shall be subject to the relevant provisions in the “Provisions for the Alteration of Investors’ Equities in Foreign-Invested Enterprises” (《外商投資企業投資者股權變更的若干規定》).

Wuzhou Shenguan is a sino-foreign equity joint venture enterprise established in the PRC on 26 November 2004 and its equity ownership changes set out in the paragraphs headed “Wuzhou Shenguan” above were approved by the Wuzhou Government, which is the principal authority for approving such equity transfers. Accordingly, C&F is of the opinion that the M&A Rules do not apply to the Reorganization, and the [●] is not subject to approval of the MOFCOM or the China Securities Regulatory Commission.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

According to the “Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies” (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “Circular 75”) implemented on 1 November 2005, a PRC domestic resident legal person or a PRC domestic resident natural person is required to effect foreign exchange registration with the local foreign exchange bureau when such domestic resident uses its/his/her enterprise assets or interests in the PRC to establish or take control of an overseas special purpose company and its/his/her domestic enterprises receive round-trip investments from funds raised by such overseas special purpose company.

As advised by C&F, Ms. Zhou, as a PRC domestic resident, had completed the relevant registration procedures and subsequent registration for changes at the Wuzhou bureau of the SAFE in compliance with the requirements under the Circular 75 on 1 March 2008 and 22 June 2009, respectively. C&F also confirmed that Mr. Low and Mr. Wei, being non-PRC nationals residing overseas, are not subject to the provisions of the Circular 75.

### REORGANIZATION

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 24 February 2009.

Our Company completed the Reorganization on 18 September 2009 in preparation for the [●] pursuant to which our Company became the ultimate holding company of our Group. Details of the Reorganization are set out in the paragraph headed “Corporate reorganization” in Appendix VII to this document.

C&F has confirmed that we have obtained all necessary approvals, licences and permits under relevant PRC laws and regulations in connection with the Reorganization.

After completion of the Reorganization and before the [●] and [●], Rich Top Future transferred approximately 10.34%, 3.29% and 2.17% interests in our Company to Xian Sheng, Wealthy Safe and Cheng Sheng, respectively, each at a consideration of HK\$1, on 19 September 2009.

## **HISTORY, REORGANIZATION AND GROUP STRUCTURE**

### **OUR CORPORATE STRUCTURE**

[●]

## BUSINESS

### OVERVIEW

We were the largest manufacturer of edible collagen sausage casing products in the PRC from 2006 to 2008, according to the ranking published by China Meat Association (中國肉類協會)<sup>(Note)</sup>. We trade under our brand name “Shenguan” (「神冠」) and our key production technologies in relation to edible collagen sausage casings have been registered as patents with the SIPO. We are the first company to obtain such patent registrations in the PRC. We are also accredited with ISO9001: 2000 Quality Management System and HACCP Standards, and have obtained FDA registration for the export of our products to the United States.

We are principally engaged in the manufacture and sale of edible collagen sausage casing products in the PRC. To maintain our market leading position in the PRC, we are also committed to the research and development of our products and manufacturing processes. As at the Latest Practicable Date, we had 106 production lines in operation at our two production bases in Wuzhou with an aggregate annual production capacity of approximately 2,417 million meters of collagen sausage casings. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our revenue amounted to RMB178.3 million, RMB259.3 million, RMB454.1 million and RMB317.2 million, respectively.

We have established our leading market position in our major market, the PRC, through the development of a comprehensive range of edible collagen sausage casing products, the expansion of our production capacities, the innovation of technologies and the continuous improvements in the quality of our products. Revenue generated in the PRC accounted for 92.6%, 90.6%, 95.1% and 95.1% of our total revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. Our major customers in the PRC are medium to large scale sausage manufacturers. We also generate sales to overseas markets including the U.S., Malaysia and South America.

We have achieved rapid business growth during the Track Record Period. Our profit before tax increased from RMB86.1 million for the year ended 31 December 2006 to RMB213.6 million for the year ended 31 December 2008, representing a CAGR of approximately 57.5%. We were named by Forbes Magazine, an international financial periodical, as one of the top 100 “China Up and Comers 2009” (2009 福布斯最具潛力中小企業(中國)).

### COMPETITIVE STRENGTHS

We believe that we are well-positioned to achieve our business objectives. We consider our principal competitive strengths to be the following:

#### **We are well-positioned to benefit from the growth of the processed meat product industry in the PRC**

We have a leading position in a market that is well-positioned for future growth. During the three years ended 31 December 2006, 2007 and 2008, the revenue of our Group increased from RMB178.3 million to RMB454.1 million, representing a CAGR of approximately 59.6%. The PRC’s ongoing economic development and urbanization are exposing an increasing number of Chinese consumers to processed meat products, and in particular Western-style processed meat products such as Western-style sausages. In addition, improved distribution systems are allowing these products to be more easily sold outside large metropolitan areas which is further increasing demand. Our collagen sausage casing products are

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*Note:* According to China Meat Association (中國肉類協會), the ranking is based on its set of criteria including, but not limited to, total assets, revenue, market share and market reputation.

## BUSINESS

designed to cater to the needs of the PRC sausage manufacturers that supply this growing market, and we expect to benefit significantly from this growth. In addition, we believe that sausage production in the PRC is shifting to manufacturers with increasing production capacity who place more stringent requirements on their suppliers in terms of quality and scale. Thus, we will increase the number of production lines from 106 as at the Latest Practicable Date to 116 by the end of 2009. We believe our expanded production capacity and our modern production technology place us in a strong position to capitalize on this trend as it enables us to support mass production of Western-style sausages of consistent quality and specifications. Please refer to the section headed “Industry Overview” in this document for more details on the positive outlook of the processed meat market and the sausage casing market in the PRC.

### **We have successfully developed and possess patented production technologies and will continue to improve and maintain our production technologies at advanced level**

Through investment in research and development, we use modern manufacturing technologies and equipment that allow us to maintain consistent product quality and operating efficiency. We believe our manufacturing technologies and equipment, for which we have applied for and registered as patents from the SIPO, are among the most modern technologies and equipment used by food processors in the PRC. Based on “Investigation Report on Science Technology” (科技查新報告) published by Science and Technology Information Research Institution of Guangxi (廣西科學技術情報研究所) in July 2007, Science and Technology Information Research Institution of Guangxi (廣西科學技術情報研究所) was not aware of any public news on any research or production of Western-style collagen sausage casings in the PRC then, save for Wuzhou Shenguan. In addition, based on “Accreditation Certificate for Science and Technology Achievements” (科技查新報告) published by Wuzhou Science and Technology Bureau (梧州科學技術局) in August 2007, the Western-style collagen sausage casing products of Wuzhou Shenguan are at an advanced level in the PRC. Our 98-member research and development team devotes significant resources to continually refining and improving our manufacturing technologies and processes, and keeps abreast of the technologies employed by international sausage casing manufacturers so that we are well-positioned to maintain our technological leadership in the industry in the PRC. Further, our research and development team works closely with our sales and marketing team to stay up to date with market information so that our products respond to emerging market trends, and have features and benefits that suit different customer needs. As at the Latest Practicable Date, we had developed and launched over 10 types of collagen sausage casing products in terms of production technologies applied.

### **We have a very strong position in the collagen sausage casing industry in the PRC, and our brand name is well recognized as a source of high quality products by our target clients**

We are a leading manufacturer of collagen sausage casing products in the PRC. We believe that our large and growing scale of operations and leadership in the PRC market gives us key advantages in sourcing low cost raw materials, and creates efficiencies in terms of production and administrative costs. As an example of industry recognition of our market position, we were engaged by the Standardization Administration of the PRC (中國國家標準化管理委員會) to develop a set of national and industry standards for collagen sausage casing products. Furthermore, based on our leading market position and high reputation for quality, we have built strong brand recognition among, and established business relationship with, processed meat manufacturers in the PRC, including some major players in the processed meat industry. As a result of these efforts, our “Shenguan” (「神冠」) brand was awarded a “Guangxi Famous Trademark” (廣西著名商標) in 2004 and has become a renowned name in the processed meat industry. We were also recognised as one of the “Most Valuable Brands in China Meat Industry” (中國肉類產業最具價值品牌) in 2009.



## BUSINESS

### **We have a strong relationship with our customers including reputable manufacturers of sausages and processed meat products in the PRC**

We have established a long-term business relationship with our major customers, a number of which are leading manufacturers of processed meat products and/or sausages in the PRC, including 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), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates. As most of our sales of collagen sausage casing products in the PRC are made by direct sales, we have developed a close relationship with our customers, which helps us to stay current with and to meet their needs and requirements promptly and efficiently. We believe our years of trusted cooperation creates an entry barrier to competitors or potential competitors in the market. In addition, as the PRC’s processed meat products industry matures, many of our customers have established increasingly stringent requirements on their suppliers. By providing high quality collagen sausage casing products and supportive after-sales services to our customers, we have been able to secure large recurring sales orders from our customers, which has driven our business growth and production expansion.

### **We have adopted stringent quality and food safety controls for our collagen sausage casing products**

We achieved our leading position in the food industry by setting high standards in operating effectiveness, quality control and food safety. Our customers demand high-quality products that undergo strict quality assurance programs. We have therefore adopted stringent quality control checks beginning with our procurement of raw materials and continuing through our entire production process, details of which are set out in the paragraph headed “Quality Control” in this section. We are accredited with ISO 9001: 2000 Quality Management System and HACCP standards. In addition, our edible collagen sausage casing products are registered with the FDA for export to the United States. These accreditations and registration signify that the quality of our manufacturing process and end products meet the requirements of the international food industry. Please refer to the paragraph headed “Quality Control” under this section for more details.

### **We have an experienced and competent management team with proven ability to deliver strong performance**

We have an experienced and capable management team with proven ability to deliver strong performance. We owe our success in growing our business to our management team’s extensive operating experience and industrial knowledge. Most of the members of our management team have more than 15 years’ experience in the collagen sausage casing industry. In addition, since the establishment of our business at Wuzhou Shenguan in November 2004, our management team have worked cohesively to manage and develop our business. We believe that the proven ability of our senior management team and their extensive experience in the manufacture of collagen sausage casings, as well as their established network in the processed meat product industry, are key advantages as we seek to continue to grow our business.

## BUSINESS

### BUSINESS STRATEGIES

We plan to aggressively exploit the growth in the PRC’s processed meat products market by pursuing the following business strategies:

#### **Strengthen our leading position in the PRC’s rapidly growing collagen sausage casing market and increase our market share**

We currently operate our existing production lines at nearly full capacity. Our principal strategy is therefore to expand our production capacity and production output, which we believe will lead directly to higher sales volume. We plan to install 60 production lines during 2009, which will double our capacity by the end of the year. As at the Latest Practicable Date, we have completed the installation of 50 of these production lines. In addition, we plan to improve our production efficiency and upgrade our technologies to achieve higher production efficiencies. By increasing our production capacity, we intend to maintain and strengthen our dominant position in the industry.

#### **Leverage our patented technologies and existing production capacity to develop new products and pursue higher cost efficiency on a larger scale**

Our future success depends on, among other things, keeping abreast of the latest technological advancements in the collagen sausage casing industry and maintaining our leadership in collagen sausage casing production technologies. We have a track record of successfully developing advanced collagen sausage casing production technologies and equipment and have registered patents for these technologies and equipment with the SIPO. We believe our efforts to continuously improve our production technologies will be crucial to the achievement of further success in the years to come, and we will devote significant research and development resources into this. In addition, we intend to continue to strengthen our relationship with sausage manufacturers through regular communication to better understand their future needs and develop innovative products to meet such needs. We will monitor the market closely and introduce new products with specific features and benefits which suit different customer needs.

#### **Strengthen our existing customer base and develop new markets globally**

We plan to strengthen our existing customer base and further expand our presence in global markets. In particular, we plan to leverage the network of our existing Chinese-style sausage casing customers in Southeast Asian countries and Western-style sausage casing customers in Brazil and the United States. To target additional international sausage and processed meat manufacturers, we intend to develop our brand as an international supplier of edible collagen sausage casings capable of providing high quality products for reputable manufacturers. In addition to producing high quality products, we will focus on providing high quality services to our customers including regular on-site visits, prompt responses to queries and constant communication to get customer feedbacks. Relying on our experienced research and development team, we should be able to design new products and respond promptly to the rapidly changing requirements of our customers on various specifications and attributes of edible collagen sausage casing products.



## BUSINESS

### Further enhance our cost structure and operational efficiency

We will optimize our production process and upgrade our equipment to eliminate or minimize impediments in order to increase production volumes, enhance production efficiency and improve product quality. We believe that we will maintain a highly competitive cost structure, without sacrificing product quality, as we benefit from the strong bargaining power that results from our scale of operations. The established large scale of operations enables us to negotiate for better prices for raw materials than our competitors and gives us more flexibility to adapt to changes and competition in the industry, especially during times of intense price competition. We intend to further improve our cost competitiveness by leveraging (i) our access to an abundant supply of workers in Wuzhou at relatively low wages; (ii) our principal production facilities are located in the proximity to Guangzhou, one of the major logistics centers and ports in China, which facilitates transportation; and (iii) our lower land cost of the production sites in Wuzhou.

### PRODUCTS

We began our production in November 2004. According to the ranking published by China Meat Association (中國肉類協會), we were the largest manufacturer of edible collagen sausage casing products in the PRC from 2006 to 2008 based on its set of criteria including, but not limited to, total assets, revenue, market share and market reputation. Our production is carried out by Wuzhou Shenguan and Shenguan Biological. We produce a comprehensive range of edible collagen sausage casing products under our brand name “Shenguan” (「神冠」).

Details of our edible collagen sausage casing products are set out below:

Type of collagen sausage casings	Characteristics	Used in
<b>Western-style sausage casings</b>		
Colored sausage casing (着色類腸衣)	– Dyed with colors – Crisp and fresh feel	Frankfurter sausages (法蘭克福腸)  Salami sausages (沙樂美香腸)
Smoked sausage casing (煙燻類腸衣)	– Bright colors – Good adhesion and may be boiled in water or hot-pot	Crisp sausages (脆皮腸)  Hot dog sausages (熱狗腸)  Chicken sausages (雞肉腸)
Fresh meat sausage casing (鮮腸類腸衣)	– Good transparency	Fresh meat sausages (鮮肉腸)  Fried sausages (煎腸)  Breakfast sausages (早餐腸)  Cocktail sausages (雞尾腸)

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Type of collagen sausage casings	Characteristics	Used in
<b>Chinese-style sausage casings</b>		
Wind-dried sausage casing (風乾類腸衣)	<ul style="list-style-type: none"> <li>– May be dried and dyed efficiently</li> <li>– Good cohesion between collagen sausage casing and meat</li> <li>– Able to endure boiling or steaming</li> </ul>	Guangdong-style dried sausages (廣式臘腸)

We produce our products in different diameters (ranging from 16mm to 50mm) and thickness, and we are able to manufacture our products in accordance with the specific requirements and standards of our customers. We believe that our advanced production technology enables us to meet the production and processing requirements of our customers and provide the wrapped sausages with the required texture and bite for various cooking attributes. In addition, the consistency and uniformity of our products facilitate the automated production processes of sausage manufacturers, which in turn enables them to achieve cost efficiency in sausage production.

Our products can generally be classified into two main categories, namely Western-style sausage casings and Chinese-style sausage casings. Set out below is a breakdown of our sales by product categories during the Track Record Period:

### *Revenue by Product Categories*

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Western-style collagen sausage casings	122,578	68.8	198,791	76.7	395,511	87.1	170,087	87.5	291,673	92.0
Chinese-style collagen sausage casings	55,701	31.2	60,500	23.3	58,542	12.9	24,382	12.5	25,525	8.0
Total	<u>178,279</u>	<u>100.0</u>	<u>259,291</u>	<u>100.0</u>	<u>454,053</u>	<u>100.0</u>	<u>194,469</u>	<u>100.0</u>	<u>317,198</u>	<u>100.0</u>

During the Track Record Period, we also sold dried meat products manufactured by us and other suppliers through direct sales to retail customers through our three retail outlets in Wuzhou under our brand “Shenguan” (「神冠」), some of which use the collagen sausage casings manufactured by us. The sale of dried meat products amounted to approximately RMB1.4 million, RMB2.5 million, RMB1.7 million and RMB0.7 million for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, respectively, representing less than 1.0% of our revenue in the respective periods. While not a material part of our business, we believe that our sales of dried meat products have provided us with an effective and helpful way to test the quality of our products. We recognize the sales of our dried meat products as other income during the Track Record Period.

## BUSINESS

### RAW MATERIALS AND SUPPLIERS

#### Raw Materials and Other Supplies

Our primary raw materials for the production of edible collagen sausage casing products include cattle’s inner skins, other auxilliary materials such as glycerol, lime and cellulose, and packaging materials. The cost of raw materials used in the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were RMB30.6 million, RMB53.8 million, RMB78.6 million and RMB48.0 million, respectively, which accounted for 40.4%, 43.7%, 38.5% and 39.7% of our cost of sales for each of the relevant period, and 17.1%, 20.8%, 17.3% and 15.1% of our total revenue for each of the relevant period.

##### *Cattle’s inner skins*

Our most important raw material is cattle’s inner skins. To guarantee a stable supply, we have established good relationship with domestic suppliers, with whom we have transacted since the commencement of our operations in 2004.

We procure a majority of cattle’s inner skins from Guangxi and Guangdong Province. The cattle’s inner skins are carefully selected and undergo a screening process by local authorities to ensure that they are free from viruses before they are processed. The cattle’s inner skins are then delivered to us in specially equipped lorries after being disinfected. The cattle’s inner skins delivered to us must carry quarantine certificates issued by relevant authorities, and are further examined by our designated personnel for quality control purposes. We have also appointed independent institutions to conduct laboratory tests and quality checks on cattle’s inner skins. We purchase cattle’s inner skins for production in accordance with our production plan to minimize over-storage.

##### *Other supplies*

Other supplies include water, electricity and coal. We use coal during the drying process in our production of sausage casings. During the Track Record Period, we procured coal from an independent local supplier. We enter into supply contracts with this supplier on an annual basis. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, water, electricity and coal charges for our production amounted to RMB20.5 million, RMB33.9 million, RMB57.0 million and RMB38.7 million, respectively.

#### Suppliers

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, purchases from our largest supplier of raw materials accounted for 23.4%, 7.1%, 10.1% and 12.3% of our total purchases of raw materials, respectively. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, purchases from our five largest suppliers accounted for 48.6%, 29.5%, 30.2% and 40.0% of our total purchases of raw materials, respectively. We have established business relationship with our five largest suppliers for the year ended 31 December 2008 for periods ranging from two to five years.

## BUSINESS

We maintain a list of qualified suppliers for each of our principal raw materials and review the list periodically. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we purchased cattle’s inner skins, our most important raw materials for production of our edible collagen sausage casing products, from 15, 26, 37 and 32 different suppliers, respectively. Over 85% of these suppliers of cattle’s inner skins are operated on an individual basis. We have entered into short-term supply agreements with some of the above-mentioned suppliers of cattle’s inner skins. The term of each of these supply agreements is renewable on an annual basis. We have been granted an average credit period from 30 to 60 days by our suppliers. Our suppliers are required to provide samples of raw materials for our testing and are also required to possess relevant business licences and production permits. All the goods supplied to us must meet our quality and hygiene standards. In the event that we are held liable for any claim due to contamination of our products, we will be primarily responsible for any damage against us. As advised by C&F, we shall have a cause of action afterwards against our suppliers under relevant PRC laws and regulations on the recovery of damages provided that the contamination is proven to be caused by relevant suppliers who have a contractual relationship with us.

During the Track Record Period, we did not encounter any substantial difficulties in sourcing our raw materials.

Our top five suppliers during the Track Record Period were all Independent Third Parties except Wuzhou Junye Printing Material. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our purchases from Wuzhou Junye Printing Material amounted to approximately RMB2.3 million, RMB3.3 million, RMB6.2 million and RMB5.2 million, representing 6.3%, 5.3%, 7.6% and 10.8%, respectively, of our total purchases.

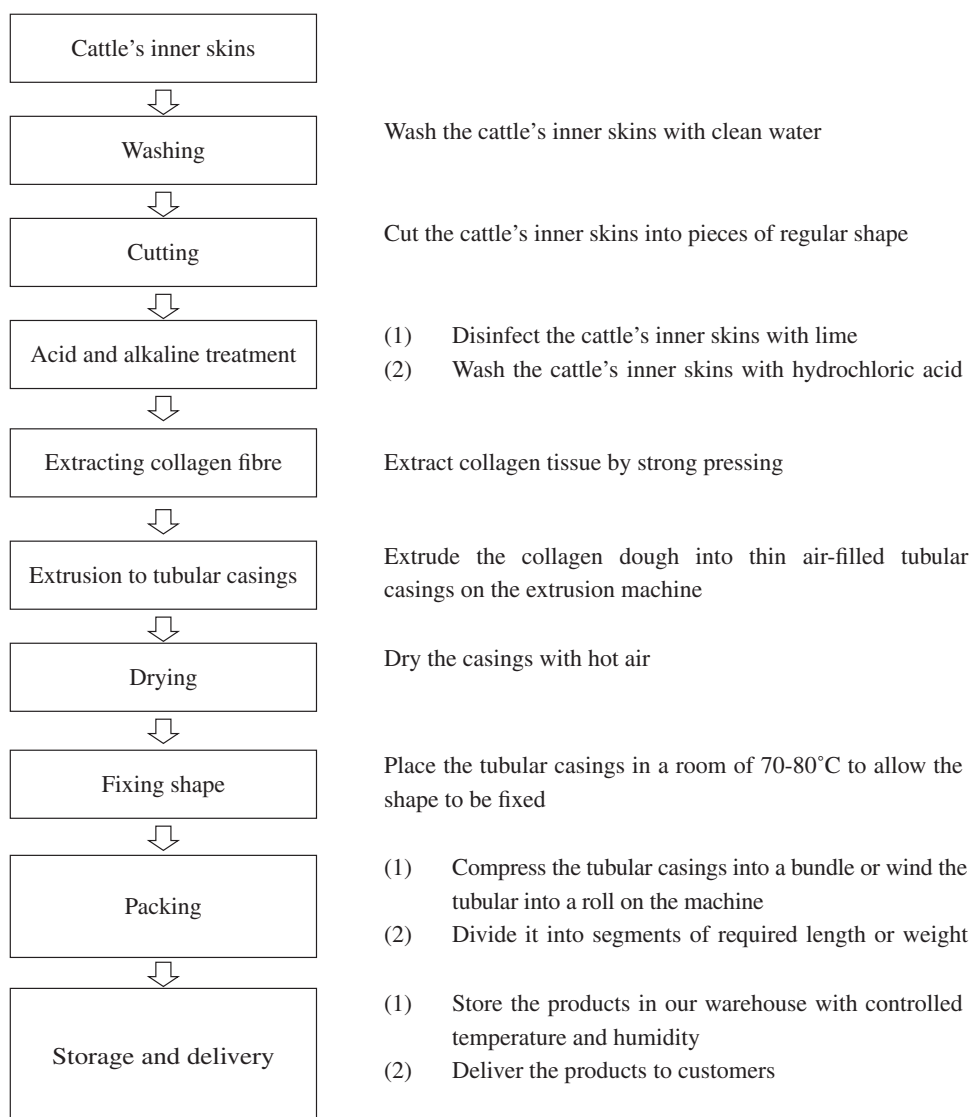
Save for Wuzhou Junye Printing Material (which was one of our five largest suppliers for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 and is owned as to 90% by Mr. Sha and 10% by Mr. Sha Junqi (沙俊奇先生), the son of Mr. Sha and Ms. Zhou), none of our Directors or any of their respective associates or any Shareholders (which, to the knowledge of our Directors, own more than 5% of the issued Shares of our Company immediately following completion of the [●]) has any interest in our top five suppliers during the Track Record Period.

## BUSINESS

### PRODUCTION

#### Manufacture of edible collagen sausage casing products

The following chart sets out the key production steps in the manufacture of our edible collagen sausage casing products:



## BUSINESS

Our edible collagen sausage casing products are mainly made from collagen, edible cellulose, glycerol and water. Collagen is the major component of animal skins, and is transformed into edible collagen sausage casings using our biotechnologies. Cattle’s inner skins are broken down and extruded into collagen dough with consistent and predictable characteristics. The collagen dough is then used to form casings. Our products must be able to withstand certain stress and high temperature.

### Production plan

At the beginning of each year, our sales and marketing department meets with our customers and discusses the anticipated level of sales orders to be placed in that year. Based on the anticipated sales volume, we formulate our product supply plan for that year. The production plan would then be derived from the product supply plan. The workers are divided into three production shifts in each working day of eight hours each. Our two production sites in Wuzhou operate seven days a week. Our production cycle normally takes about one month.

### Production premises

We manufacture all of our collagen sausage casing products in Wuzhou. As at the Latest Practicable Date, we had two production sites housing 106 production lines in operation, 60 of which are located at our new plant at Wuzhou Industrial Park (梧州市工業園區) and 46 are located at our old production site.

The following table sets out a brief summary of our production premises as at the Latest Practicable Date:

Location	Number of production lines	Estimated annual production capacity
29 Fudian Shangchong, Xijiang Fourth Road, Wuzhou, Guangxi (廣西梧州市西江四路 扶典上沖29號)	46	Approximately 1,049 million meters
Wuzhou Industrial Park (梧州市工業園)	60	Approximately 1,368 million meters

Further details of the two productions sites are set out in the paragraphs headed “Property Interests” in this section.

## BUSINESS

### Property, plant and machinery

We are committed to investing in our property, plant and equipment to ensure high efficiency of our production. During the Track Record Period, we made considerable investments in our property, plant and machinery, the amounts of which are set out below:

#### *Expenditure on property, plant and equipment*

	Year ended 31 December			Six months ended 30 June	
(Amount in RMB' 000)	2006	2007	2008	2008	2009
Capital expenditure on property, plant and equipment	31,497	52,584	99,721	40,471	145,468

A vast majority of our machinery was manufactured in the PRC, which we believe, has reduced our capital expenditure and maintenance costs and provided us with competitive advantages in maintaining our profitability margins. Most of the machinery we use has been specifically designed and made to meet our requirements for specific functions. Furthermore, we have been largely involved in the design process and improvement of our machinery to ensure that its performance can meet our production needs. We believe that our equipment together with the production know-how developed by our research and development team have enabled us to produce quality products consistently.

### Maintenance

We have implemented a well-established maintenance system for our equipment and facilities, including scheduled downtimes for maintenance and repairs, and regular inspections of production facilities and equipment, in order to run our production lines at optimal levels. We carry out routine maintenance periodically on our production lines to prolong the lifespan of our equipment. For the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, we incurred repairs and maintenance expenses of RMB4.9 million, RMB8.1 million, RMB12.8 million and RMB8.1 million, respectively. We have not encountered any material difficulties in relation to the sourcing of machinery and have not experienced any material or prolonged interruptions of our facilities due to failures of equipment or machinery.

## BUSINESS

### Production capacity and production volumes

To accommodate our increasing sales, we have expanded our production capacity during the past few years. The following table sets out the details of our production capacity and production volume during the Track Record Period:

#### *Production capacity*

	As at 31 December			As at 30 June
	2006	2007	2008	2009
Number of production lines	26	46	56	76
Annual production capacity (million meters of sausage casing) (Note 1)	471.2	706.8	1,067.8	790.4 (Note 3)
Actual annual production volume (million meters of sausage casing) (Note 2)	450.5	666.7	1,017.4	783.7 (Note 3)
Average rate of utilization of production capacity	<u>95.6%</u>	<u>94.3%</u>	<u>95.3%</u>	<u>99.2%</u>

#### *Notes:*

1. Production capacity represents approximate total output on the basis of 24 hours per day and 280 days per year. The production capacity is calculated by adding up each monthly production capacity in that year to capture the increase in the number of production lines each month.
2. Figures based on our internal production records.
3. These figures were calculated based on figures available for the six-month period only.

We strive to manufacture at a level close to our full capacity, which has helped us to establish and maintain our leading position in the edible collagen sausage casing market in the PRC. As at the Latest Practicable Date, approximately 1,750 full-time workers were employed to work at our two production bases in Wuzhou.

### Production contingency plan

Our production facilities are located in flood-prone areas. We have formulated internal guidelines on monitoring and reporting in case of flooding. Designated personnel have been assigned under our internal guidelines for the removal and transportation of relevant production facilities under such circumstances.

We have taken into consideration the possibility of flooding in the areas when we select our production sites and design our production premises. Our two production sites are located at different locations to minimize the chance of being affected by possible flooding. All our production facilities are located at a level above the historical flood levels recorded since 1902. During the Track Record Period, we had not experienced any material disruption to our production as a result of flooding.



## BUSINESS

### QUALITY CONTROL

In order to obtain the accreditations under ISO and HACCP, we must comply with, among others, a set of stringent hygiene and quality requirements under PRC laws and regulations. Wuzhou Protein Factory obtained the ISO certification since 2 August 2001 and we have maintained the ISO certification since our acquisition of the entire ownership rights of Wuzhou Protein Factory in 2004. We kept the ISO certification renewed from time to time and the latest renewal was made in April 2009. In addition, Wuzhou Protein Factory registered our edible collagen sausage casing products with the FDA for export to the United States since 2 November 2003, and we obtained such FDA registration in the name of Wuzhou Shenguan on 11 December 2008. We were also awarded the HACCP certification on 11 April 2007 and have maintained the certification since then. For our export business, we have obtained all necessary licenses and permits.

The table below sets out the quality control, assurance certifications and registrations we obtained in respect of our production up to the Latest Practicable Date:

Name of our subsidiary	Certification/registration	Certifying/registering institution/authority	Validity period of certificate since last renewal	Process/products certified or registered
Wuzhou Shenguan	HACCP Certificate	CCIC Conformity Assessment Service Co., Ltd. (中國檢驗認證集團質量認證有限公司)	From 11 April 2007 to 10 April 2010	Processing of collagen sausage casing and dried meat sausages
Wuzhou Shenguan	ISO9001: 2000	China Quality Certification Center (中國質量認證中心)	From 20 April 2009 to 19 April 2012	Design, development, manufacture of collagen sausage casing
Wuzhou Shenguan	FDA registration	FDA	From 11 December 2008 onwards	Export of collagen sausage casing products to the U.S.

### Measures on quality control

The quality and reliability of our products are vital to our success. Our products must be able to meet a set of national standards (GB14967-94) and certain industry standards (SB/T10373-2004), and the requirements of our customers in respect of color, appearance, taste and bite. We have placed significant emphasis upon quality assurance, and our product quality committee reports directly to our senior management. We have implemented a stringent quality control system throughout our production process.

As at the Latest Practicable Date, our quality control team comprised 52 members. Our quality control team closely monitors our raw material sourcing, production process, equipment and machinery. We have implemented a centralized system for procurement and inspection of raw materials and packaging materials to help ensure a stable high quality supply. We inspect our raw materials and packaging materials before their use in our production process. We perform routine product inspections and sample testing on every batch of our products to ensure quality of our products, including semi-finished and finished products. Products in the warehouses are also subject to routine quality checks.

## BUSINESS

Special attention is given by our quality control staff on the color, diameter, thickness and the stability of quality of collagen sausage casing products during the production process. In addition, we ensure that our products can withstand a threshold degree of stress when being filled and holding the weight of meat.

The production line for each of our products has its own quality control procedures and manuals so as to ensure that both the product quality and the specifications meet the requirements of our customers. As our finished products will be used as raw materials in the sausage production process, the quality control team also performs regular quality checks on sausages manufactured by our customers to ensure that all of our finished products can meet the prescribed quality standards. According to our quality control notes, our defects amounted to less than 2% of our total finished products in 2008.

During the Track Record Period, we have not encountered any material complaints on product quality, or any material sales returns, which reflected our quality assurance capability and reinforced our reputation in the sausage casing industry in the PRC.

### Hygiene control and food safety

We place great emphasis upon food hygiene in order to ensure that our products are safe for consumption. We have established food safety and hygiene quality control systems in accordance with the hygiene standards and requirements prescribed by the Food Safety Law, the Administration Regulations on Quality Safe Supervision of Foods Production and Processing Enterprise (食品生產加工企業質量安全監督管理實施細則(試行)) and the Regulations on Hygiene Registration of Export Food Production Enterprises (出口食品生產企業衛生註冊登記管理規定), and have registered our products with relevant health authorities.

We have taken various measures to achieve optimal product quality and meet our customers’ standards for guaranteed safety and hygiene. Our commitment to food quality and hygiene is demonstrated by a comprehensive set of measures applied to our production, and also by stringent operational standards which are reviewed externally and internally from time to time. We have the HACCP system in place at Wuzhou Shenguan’s facilities.

C&F has confirmed that we have obtained all necessary approvals and qualification certificates for our food processing business required under relevant PRC laws and regulations. We have obtained the confirmation from Wuzhou Hygiene Bureau (梧州市衛生局) confirming our compliance with relevant PRC laws and regulations relating to food safety and hygiene control.

### INVENTORY CONTROL

The inventory of our operations primarily consists of finished goods, work in progress and raw materials.

We have established our internal inventory management procedures to control the logistics and warehousing of our raw materials, work in progress and finished goods. This system enables us to monitor the status of sales and inventories. Our warehousing department uses an inventory management software to manage inventory and warehousing facilities across all of our factories and subsidiaries.

In order to maintain the quality of our finished products and raw materials, we closely monitor the temperature and humidity in our warehouses, and maintain policies and procedures for the management and control of inventory and delivery of raw materials and finished goods.

## BUSINESS

We normally maintain sufficient raw material stocks for a period of 120 days, depending on the consumption, the time required for ordering, the bulk-purchase discount level, the latest market situation, the time for treatment and the availability of substitute products. The objective of our inventory management policy is to ensure that the production process will not be interrupted because of shortage in raw materials.

Prior to 1 January 2009, we performed inventory assessment checks on an annual basis. We have since adopted half-yearly inventory assessment checks for better control and management of our inventories.

## SALES AND MARKETING

### Overview

As at the Latest Practicable Date, our sales and marketing team comprised 21 staff members. In addition to having extensive experience and knowledge of the PRC sausage casing industry, our Directors and senior management have established close business relationship with several sausage manufacturers in the PRC. We have leveraged on the experience, knowledge and relationship network of our senior management to secure reputable sausage manufacturers in the PRC as our major customers, including 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), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates.

Our sales and marketing team is responsible for managing our sales orders. Our standard sales contracts with our customers usually have a term of one year and are renewable on a yearly basis.

The following table illustrates the geographic breakdown of our sales during the Track Record Period:

#### *Geographic breakdown of sales*

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
The PRC	165,107	92.6	235,036	90.6	432,015	95.1	185,328	95.3	301,581	95.1
Other countries	13,172	7.4	24,255	9.4	22,038	4.9	9,141	4.7	15,617	4.9
Total sales	<u>178,279</u>	<u>100.0</u>	<u>259,291</u>	<u>100.0</u>	<u>454,053</u>	<u>100.0</u>	<u>194,469</u>	<u>100.0</u>	<u>317,198</u>	<u>100.0</u>

Our major customers are located in the PRC. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, 7.4%, 9.4%, 4.9% and 4.9% of sales were generated from our export business, respectively. Southeast Asian countries were the major importers of our Chinese-style sausage casing products while the Western-style sausage casing products were primarily sold to South America.

## **BUSINESS**

We believe that the growth in the processed meat product industry is influenced by economic growth, level of urbanization, consumer preference and the automation level of sausage production in the PRC. The PRC is our principal market. People in the PRC are changing their eating habits which has resulted in higher consumption of processed meat products, including sausages.

Since there has been very significant demand for our products throughout the Track Record Period, at current stage, the main focus of our sales and marketing strategy is to maintain good relationship with our existing customers. At the same time, we will continue identifying new customers so that we can increase sales once our planned expansion of our production capacity is completed.

### **Sales and marketing team**

Our sales and marketing team plays an important role in our business development and the promotion of our products. Remuneration of our sales and marketing staff is primarily based on the sales volume achieved.

Our sales and marketing staff are responsible for monitoring the collection of receivables and following up with customers when payment is due. In addition, our management closely monitors outstanding receivables and periodically re-assesses the creditworthiness of our customers.

During the Track Record Period, over 90% of our sales were made through direct sales and less than 10% of our sales were generated through our two agents. One of them was C.T. Company who acted as our agent in locating new customers for our Group in South America. The other one was an Independent Third Party who acted as our agent for the sale of our products in northern China. Pursuant to the agency agreement we entered into with C.T. Company, C.T. Company was entitled to commissions for successful referrals which were determined at an effective rate ranging from approximately 1.9% to 2.3% on the amount collected from the customers in South America referred by C.T. Company. The agency agreement with C.T. Company was terminated and superseded by the CT Agency Agreement on 22 September 2009, the details of which are set out under the section headed “Connected Transactions” in this document. Pursuant to the agency agreement we entered into with the independent agent, the agent is responsible for the transportation expenses from Beijing to the end customers in Northern China and is entitled to receive maximum fees amounting to RMB0.02 per meter of sausage casings sold by such agent, representing an effective commission rate paid by us to the independent agent ranging from approximately 4.2% to 5.1%, which is higher than the range of commission rate payable to C.T. Company as stated above. The term of such agency agreement is renewed annually and we have the right to terminate such agreement if the sales amount achieved by the independent agent falls below the volume stipulated in the agency agreement.

### **Pricing policy and sales terms**

Our pricing strategy of Chinese-style sausage casings is normally to follow the price trend of the natural sausage casing products. For Western-style sausage casings, selling prices are determined with reference to the underlying cost of sales. The weighted average selling price of our products ranged from RMB0.33 per meter to RMB0.46 per meter during the Track Record Period depending on, among other factors, types, size and diameters of casing of our products.

We believe that our pricing policy has generally enabled us to sell our products at a satisfactory profit margin, and that the average selling prices of our products are lower than those of similar products imported from overseas.

## BUSINESS

We offer various sales terms to our customers, which are arrived at after arm’s length negotiations and with reference to a number of factors, including product type, size of order, production costs and credit-worthiness of particular customers. The terms of credit we grant to our customers are usually 30 to 90 days. For those customers who only have small volume of transactions and are not eligible for a credit period, we generally request cash on delivery or request those customers to settle their previous accounts before further acceptance of purchase orders from them.

We recognize revenue when it is probable that economic benefits will flow to us and when the revenue can be measured reliably. For the sales of goods, revenue is recognized when significant risks and rewards of ownership have been transferred to the buyer provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

We made provision for impairment of trade receivables in the amount of RMB0.3 million, RMB1.4 million, RMB1.3 million and nil for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively.

### After-sale service

We had returned goods of 6,016,000 meters, 4,279,000 meters, 2,630,000 meters and 1,586,000 meters of our edible collagen sausage casing products, which accounted for 1.3%, 0.7%, 0.3% and 0.2% of our sales volume for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. During the Track Record Period, goods returned to us were mainly due to (i) unused products returned from our customers because of changes in their production need; and (ii) defects in our products. Upon receipt of our customers’ requests to return goods to us, our sales and marketing team will follow up with the requests and only after considering the possibility of re-sale of the unused products returned or confirming that there are defects in our products, we will arrange for exchange of goods at the same value for such customers. We will only allow products to be returned by our customers due to our defaults after [●]. We maintain regular communication with our customers to receive feedback on product quality, service, and delivery and pricing. In addition, our sales and marketing team conducts on-site visits at our customers’ production sites regularly to collect their feedback.

### Marketing

We believe that strong brand recognition and reputation have been instrumental to our success. Since our establishment in 2004, we have sought to build strong recognition for our brand name “Shenguan” (「神冠」) and to promote a superior image for our products. “Shenguan” (「神冠」) was also awarded the “Guangxi Famous Trademark” (廣西著名商標) by the Administration for Industry and Commerce, Guangxi (廣西工商行政管理局) in December 2004. Being the largest manufacturer of edible collagen sausage casing products in the PRC during 2006-2008 (according to the ranking published by China Meat Association (中國肉類協會) based on its set of criteria including, but not limited to, total assets, revenue, market share and market reputation) and numerous awards granted to the Group, “Shenguan” (「神冠」) has been the most widely recognized brand in the sausage casing industry in the PRC.

We enhance consumer recognition and acceptance of our brand and products through promotional activities such as exhibitions. Our promotion and advertising expenses for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were RMB0.6 million, RMB1.1 million, RMB0.6 million and RMB0.2 million, representing 0.3%, 0.4%, 0.1% and 0.1%, respectively, of our total revenue for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009.

## BUSINESS

### CUSTOMERS

We have established a leading position in the PRC’s collagen sausage casing market with a strong customer base. Our major customers are medium to large sausage manufacturers in the PRC.

We believe that our ability to maintain customer loyalty is vital to our success. Some of our well-established customers include 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), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, sales to our five largest customers in aggregate accounted for approximately 40.3%, 42.6%, 56.7% and 60.3%, respectively, of our total revenue. During the same periods, our single largest customer accounted for approximately 13.9%, 19.9%, 37.8% and 44.4%, respectively, of our total revenue. Our five largest customers during the Track Record Period were processed meat product or sausage manufacturers in the PRC. Except Zhongshan Defu Meat Products Co., Ltd. (中山市得福肉食製品有限公司), they are all Independent Third Parties. We have established a good and long-term relationship with our major customers, and our business relationship with four out of the five largest customers for the year ended 31 December 2008 started from 2004.

Zhongshan Defu Meat Products Co., Ltd. (中山市得福肉食製品有限公司) was one of our five largest customers for the years ended 31 December 2006 and 2007 and is owned as to 90% by Mr. He Xiangji (何祥吉先生), who acquired 36.80% equity interest in Wuzhou Xiansheng, a minority shareholder of Wuzhou Shenguan, in March 2008. Save as disclosed above, in the paragraphs headed “Wuzhou Xiansheng – A Minority Shareholder of Wuzhou Shenguan” under the section headed “History, Reorganization and Group Structure” and in the paragraphs headed “Investment in Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司)” under the section headed “Relationship with Our Controlling Shareholders” in this document, Mr. He Xiangji (何祥吉先生) has no other relationship with our Company and our connected persons. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our sales to Zhongshan Defu Meat Products Co., Ltd. (中山市得福肉食製品有限公司) amounted to RMB22.9 million, RMB28.8 million, RMB10.3 million and RMB2.3 million, representing approximately 12.8%, 11.1%, 2.3% and 0.7%, respectively, of our total revenue. Sales to Zhongshan Defu Meat Products Co., Ltd. (中山市得福肉食製品有限公司) are expected to continue after the [●].

None of our Directors or any of their respective associates or any Shareholders (which, to the knowledge of our Directors, own more than 5% of the issued Shares of our Company immediately following completion of the [●]) has any interest in our top five customers during the Track Record Period.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, approximately 7.4%, 9.4%, 4.9% and 4.9%, respectively, of our revenue were derived from our export, mainly to South America, Malaysia and the U.S.. C&F confirmed that we have obtained all necessary approvals, licences or permits under relevant PRC laws and regulations on the export of our products.



## BUSINESS

### RESEARCH AND DEVELOPMENT

We realize the importance of the research and development of new production technologies to our continuous growth. We have a dedicated research and development team responsible for improving the quality and expanding the range of our products. As at the Latest Practicable Date, our research and development team comprised 98 members. Ms. Zhou has long been engaged in the research and development of technologies in the production of collagen sausage casings and has been awarded the “The Third Class Prize in National Science and Technology Advancement Award” (國家科學技術進步三等獎) in December 1995 and special subsidies granted by the State Council. We have also made an application to the Affirmation Working Leader’s Group on High-tech Enterprises of the Guangxi Zhuang Autonomous Region (廣西壯族自治區高新技術企業認定工作領導小組辦公室) for the recognition by the Ministry of Science and Technology of the PRC (國家科技部) as a “High-tech Enterprise” (高新技術企業). Our research and development team keeps abreast of the latest developments in production technology by conducting market researches.

The main objectives of our research and development team are to (i) introduce new products in order to increase market share; (ii) reduce production costs and improve production efficiency; and (iii) improve the product quality. Our research and development staff visit a number of our major customers regularly to understand their latest requirements on product characteristics. In addition, our sales and marketing staff discuss their findings with our research and development staff after receiving feedback from our customers.

Throughout the Track Record Period, we had been committed to the research and development of technologies applicable to the production of our edible collagen sausage casing products. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our research and development expenses amounted to RMB1.6 million, RMB11.1 million, RMB23.1 million and RMB11.7 million, respectively. These technologies had been generally applied to the production of the full range of our edible collagen sausage casing products, while specific technologies had been developed for the production of certain products, including our Western-style low-temperature collagen sausage casings (西式低溫膠原蛋白腸衣) and dyed color collagen sausage casings (著色腸衣), which have been introduced to the market. The former is a kind of collagen sausage casing with a number of technical characteristics such as strength, elasticity and water absorption rate and can be used in a wide range of Western-style sausage products. The latter is quick and easy to be smoked and colored and thus is applicable for a variety of Western-style sausage products. We are applying for patent registration in the PRC for our production technology developed for the production of Western-style low-temperature collagen sausage casings (西式低溫膠原蛋白腸衣) and are in the process of developing technologies for the production of certain new edible collagen sausage casing products such as raw meat sausage casings (鮮肉腸衣).

### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had registered two trademarks and four patents with the SIPO. We also have our trademarks registered overseas such as in Thailand, Vietnam and the U.S. Eleven additional patents are pending registration in the PRC. Details of our intellectual property rights are set forth in the sub-section headed “Intellectual Property Rights” in Appendix VII to this document.

Details of our products, and the production method and operating conditions we employ form part of our technical know-hows that is the key to our market leadership. In order to protect the confidentiality of our research and development achievements, we require our senior staff to abide by the confidentiality

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clauses in their employment contracts with us. Some of our senior staff are subject to a three-year non-competition period after the termination of their employment contract with us. In addition, there is strict segregation of duties among our staff involved at the different stages of our production process to minimise the risk of any staff member acquiring the technical know-hows of the entire production process of any of our products.

### COMPETITIVE LANDSCAPE

We consider that there are several entry barriers to the collagen sausage casings industry, including the following:

- (i) our collagen sausage casing products are manufactured with core technologies developed and patented by us, namely the production method of a type of protein sausage casing (一種蛋白腸衣的製作方法及設備), the production method of edible collagen sausage casings (可食膠原蛋白腸衣的生產方法), the production method of alkaline collagen sausage casings (鹼性膠原製作蛋白腸衣的方法及設施), the production method of a type of collagen sausage casings (一種膠原蛋白腸衣的生產方法), all of which have been registered as patents with the SIPO. Details of our registered patents and patent registration applications are set forth in the sub-section headed “Intellectual Property Rights” in Appendix VII to this document. We believe our patented technologies have created entry barriers to competitors or potential competitors in the PRC for the manufacture of collagen sausage casing;
- (ii) if a manufacturer of collagen sausage casing products does not possess a well-established customer network of sausage manufacturers, it may not be able to solicit large orders;
- (iii) the manufacture of collagen sausage casing products is generally a capital-intensive industry which requires substantial investments in plant and machinery. We believe that most of our existing or potential competitors in the PRC may lack the required funds to make intensive capital investments for the initial establishment, ongoing development and expansion of the production scale; and
- (iv) it takes significant time to (1) reach high cost-efficiency; (2) achieve stable quality; and (3) train up skillful staff.

In respect of our Western-style sausage casings, competition mainly comes from imported Western-style sausage casing products. The international manufacturers of collagen sausage casings generally have a longer operating history than our Group, and a number of them have achieved a larger scale of production. However, their bases of manufacturing are mainly situated in overseas countries, thus their production and transportation costs are much higher than ours. We believe the average selling prices of our Western-style sausage casing products are slightly lower than the imported products, and that our low cost of production will help us to maintain our pricing advantage. In respect of our Chinese-style collagen sausage casings, we mainly face competition from natural sausage casings manufactured in the PRC.

We have established a leading position in the PRC’s collagen sausage casing market with a strong customer base, which is evidenced by our significant growth in sales volume during the Track Record Period. Our competitors in the PRC occupied insignificant market share during the Track Record Period.



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### AWARDS AND CERTIFICATES

We have been granted a number of major awards and certificates in recognition of our business development during the Track Record Period, details of which are set out as follows:

Year	Awards/certificates	Issued or granted by
January 2006	“Advanced Technology Enterprise Certification” (高新技術企業認定證書)	Science and Technology Bureau, Guangxi (廣西科學技術廳)
June 2006	“Excellent Enterprise of Guangxi in 2005” (2005 年度廣西優秀企業)	Guangxi Enterprise Union and Guangxi Entrepreneur Association (廣西企業聯合會及廣西企業家協會)
October 2007	“Excellent Project for Exhibition” (“優秀參展項目獎”)	Fourth China-ASEAN Expo (第四屆中國 — 東盟博覽會)
March 2008	“Important Product Innovation Award” (重大產品創新獎)	The People’s Government of Wuzhou, Guangxi (廣西梧州市人民政府)
May 2008	“Science and Technology Advancement Award” (科學技術進步獎)	The People’s Government of Wuzhou, Guangxi (廣西梧州市人民政府)
July 2008	“Excellent Enterprise of Guangxi in 2007” (2007 年度廣西優秀企業)	Guangxi Enterprise Union and Guangxi Entrepreneur Association (廣西企業聯合會及廣西企業家協會)
October 2008	“Excellence Award for Transformation of Scientific and Technological Achievements” (成果轉化優秀項目獎)	China Hi-Tech Fair Organizing Committee (中國國際高新技術成果交易會組委會)
December 2008	“Science and Technology Advancement Award” (科學技術進步獎)	The People’s Government of Guangxi (廣西人民政府)
September 2009	“Most Valuable Brands in China Meat Industry” (中國肉類產業最具價值品牌)	China Meat Association (中國肉類協會)

### WORKPLACE SAFETY

We have complied with the applicable labor and safety regulations in all material respects, and we have maintained a relatively clean safety record without the occurrence of any major work-related injuries during the Track Record Period. In addition, during the Track Record Period, there was no serious personal injury or damage to our properties recorded as a result of equipment failure or accident in our premises, nor was there any material violation of laws in respect of workplace safety.

In order to enhance our supervision and management of production safety, as well as to prevent and reduce accidents arising from production, we have established a safety management system, under which we have implemented the following safety measures:

- (i) we have established a safety supervision committee under the general manager to oversee the supervision and management of production safety;

## **BUSINESS**

- (ii) we inspect all production lines regularly for any potential risks in production safety;
- (iii) we conduct periodic review(s) of the production process to identify areas for improvement and to minimize potential risks in production safety;
- (iv) we analyze every accident arising in production and develop future precautionary measures;
- (v) we provide safety-related training to all employees;
- (vi) access to certain dangerous areas are prohibited or restricted; and
- (vii) we strictly enforce internal safety guidelines and instructions in relation to the storage of dangerous chemicals.

## **ENVIRONMENTAL PROTECTION**

We recognize the importance of environmental protection and therefore have controlled our pollutant emissions and ensured compliance with the PRC’s environmental regulations during our production. We are committed to minimizing any environmental impact caused by our operations. Our business is subject to relevant PRC national and local environmental laws and regulations which, among other things, require the payment of fees in connection with activities that discharge waste materials and impose fines and other penalties on activities that threaten the environment.

We have installed environmental protection equipment and facilities which control and treat pollutants in our production. We have internal procedures in place to monitor and supervise our pollutant emissions and waste disposal activities in accordance with the environmental laws and regulations in the PRC. As part of our internal control measures, we also conduct internal environmental inspections to ensure that the disposal of waste does not exceed the limit allowed by the applicable laws.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we spent approximately RMB0.4 million, RMB1.5 million, RMB3.4 million and RMB1.1 million, respectively, on compliance with applicable environmental protection rules and regulations, including discharge fees and capital expenditure on environmental protection equipment and facilities. We do not expect any significant fluctuation in our compliance costs in the near future.

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The principal pollutants we discharge are waste water, waste gas, solid waste and noise. We have taken the following measures to prevent and exercise control over the emission or discharge of these pollutants:

Type of pollutant	Source	Our measures and treatment
Waste water	Waste water at the old production site comes from (i) acidic or alkaline waste water; and (ii) water used to clean cattle’s inner skins and the ashes and dust from our boilers.	At the old production site, we have established a sewage system which separately processes production waste water.
	Waste water at the new production site comes from water used to clean the ashes and dust of from our boilers.	At the new production site, we have established a sewage system which separately processes production waste water.
Waste gas	At the old and the new production sites, we have a boiler using coal. Air containing dust, sulphur dioxide and compounds of hydrogen and oxygen mainly comes from the boiler.	At the old and the new production sites, we have installed static dust removers to purify the waste gas before emission.
Solid waste	Residue of coal after combustion.	We have appointed independent contractors to remove the residue.
Noise	Noise is produced by air-conditioners and air compression machines during the production process.	Noise reduction equipment is installed.

We constantly seek to improve our environmental protection measures. In 2007, we have established a 24-hour monitoring system regarding environmental protection, which is connected with the local Bureau of Environmental Protection. Such system monitors the status of our discharge of waste water, waste gas and dust.

During the Track Record Period, we were not subject to any material claims or penalties in relation to environmental protection. According to the confirmation issued by the Environmental Protection Bureau of Wuzhou (梧州市環境保護局) on 24 February 2009, Wuzhou Shenguan has been in compliance with the environmental laws and regulations of the PRC since its establishment.

## INSURANCE COVERAGE

Our insurance coverage includes social insurance, supplemental medical and accident insurance for our staff in accordance with the Labor Law of the PRC (《中華人民共和國勞動法》), and insurance for damages to production facilities and certain assets arising from natural disasters. We also purchase medical and accident insurance for employees who are under probation with temporary employment contacts.

Our Directors believe that we have adequate insurance coverage as we have maintained policies which are mandatory under relevant PRC laws and regulations and in accordance with the industry practice.

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### PROPERTY INTERESTS

#### Property interests in Hong Kong

As at the Latest Practicable Date, we rented Room 2902, 29th Floor, Sino Plaza, Causeway Bay, Hong Kong with a total lettable area of approximately 1,570 sq.ft. (equivalent to approximately 145.86 sq.m.) as our principal office in Hong Kong. For details, please refer to Appendix IV to this document.

#### Property interests in the PRC

DTZ, an independent real estate valuer, valued our property interests in the PRC at approximately RMB96 million as at 31 August 2009. The letter, summary of values, valuation basis and the valuation certificates issued by DTZ in connection with its valuation are set out in Appendix IV to this document.

As at 31 August 2009, we used or owned: (i) the land use rights to ten parcels of land with an aggregate area of approximately 352,142 sq.m.; and (ii) approximately 24 buildings and one unit with an aggregate floor area of approximately 95,649 sq.m. (excluding the three retail outlets leased from third parties). C&F confirmed that we have obtained land use rights for all of our owned properties as at the Latest Practicable Date.

As at the Latest Practicable Date, among the 24 buildings and one unit we used or owned, we hold valid building ownership certificates to 18 buildings and one unit with an aggregate floor area of approximately 35,222.18 sq.m., representing 97% of our total aggregate floor area (excluding the five buildings under construction and the three retail outlets leased from third parties). The remaining six buildings that we do not have building ownership certificates can be classified into two categories: (i) five buildings with a gross floor area of 59,352 sq.m. which are under construction; and (ii) one building in Wuzhou with an aggregate floor area of approximately 1,075 sq.m., the construction of which has been completed.

The one building for which we do not have a relevant building ownership certificate as mentioned above is a temporary structure located at our old production site and is mainly used for the cleaning of cattle's inner skins. As advised by C&F, such building may be subject to demolition by the local competent authority and a maximum fine of RMB116,087, which is 15% of the total construction costs of the building.

Cleaning the cattle's inner skins is the initial process of our entire production. It does not require the assistance of specific production facilities and can be readily relocated to other places. We are considering the possibility of relocating such cleaning process to other premises at our old production site or entering into lease arrangements for similar buildings in adjacent areas. In the event that the demolition of the building is demanded by the local competent authority, our Directors estimate that the relevant relocation can be completed within one month and the maximum cost will not exceed RMB0.5 million, including the possible expenses incurred by the relocation and the first year rentals to be paid under the contemplated lease agreement(s) with reference to the prevailing market price. Taking into account that we normally maintain sufficient storage of cleaned cattle's inner skins for a period of 120 days, our Directors are of the view that, in case of the demolition of the building, we will not suffer any material disruption to our production or loss.

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As at 31 August 2009, we also leased three retail outlets in Wuzhou with an aggregate floor area of not less than 94 sq.m. at a total rental cost of approximately RMB3,600 per month. The leased retail outlets are used for the sales of our dried meat products. The lessors of the leased retail outlets cannot provide their title documents for proper registration of relevant lease agreements. As advised by C&F, if there is any dispute as to the title of the leased properties, relevant PRC court or arbitration institutions may rule that such lease agreements are invalid. Under these circumstances, our rights under the lease agreements will not be protected under relevant PRC laws and we may be required to vacate from the leased properties. However, as advised by C&F, we will have the rights to claim from the lessors for our losses as a result of the lease agreements.

In the event that we are forced to vacate from the leased properties, our Directors estimate that relevant relocation can be completed within one week after considering the stable supply of similar properties that are available for leasing. Our Directors estimate that the maximum costs for the relocation, if required, will not exceed RMB48,000, including the possible expenses incurred by the relocation and the first year rentals to be paid under the new leases with reference to the prevailing market price. Taking into account that our sales of dried meat products amounted to approximately RMB1.4 million, RMB2.5 million, RMB1.7 million and RMB0.7 million for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, respectively, representing less than 1.0% of our revenue in the respective periods, our Directors are of the view that, in case of relocation of our dried meat products outlets, we will not suffer any material loss.

For further details of the property interests owned or leased by us, please refer to Appendix IV to this document.

## REGULATORY COMPLIANCE

The regulatory and legal framework concerning the collagen sausage casing industry in the PRC is set out in the section headed “Regulations” in this document.

### Licences, permits and approvals

We are required to maintain various licences, permits and approvals in order to operate our facilities and comply with applicable regulatory and legal requirements, including hygiene and food safety standards related to our production processes. C&F is of the opinion that we have obtained all licences, permits and approvals required in order for us to operate our business, and that such licenses, permits and approvals are valid and remain in effect at the Latest Practicable Date.

Name of our subsidiary	Certification	Certifying institution/ authority	Validity period of certificate	Process/product certified
Wuzhou Shenguan	Health Certificate for Food (食品衛生許可證)	Wuzhou Health Bureau (梧州市衛生局)	From 24 May 2007 up to and including 23 May 2011	Manufacture and sales of collagen sausage casing, dried meat products and storage of frozen food

## BUSINESS

Name of our subsidiary	Certification	Certifying institution/ authority	Validity period of certificate	Process/product certified
Wuzhou Shenguan	Registration Certificate for Export Food Production Enterprises (出口食品生產企業備案證明)	Guangxi Entry-Exit Inspection and Quarantine Bureau (廣西出入境檢驗 檢疫局)	From 30 June 2009 up to and including 29 June 2012	Collagen sausage casing
Shenguan Biological	Health Certificate for Food (食品衛生許可證)	Wuzhou Health Bureau (梧州市衛生局)	From 30 March 2009 up to and including 29 March 2013	Manufacture and sales of collagen sausage casing
Wuzhou Shenguan, First Retail Outlet (第一經營部)	Health Certificate for Food (食品衛生許可證)	Wuzhou Health Bureau (梧州市衛生局)	From 25 June 2008 up to and including 24 June 2012	Dried meat products, sugar and eggs
Wuzhou Shenguan, Second Retail Outlet (第二經營部)	Health Certificate for Food (食品衛生許可證)	Wuzhou Health Bureau (梧州市衛生局)	From 23 April 2007 up to and including 22 April 2011	Dried meat products, sugar and meat
Wuzhou Shenguan, Third Retail Outlet (第三經營部)	Health Certificate for Food (食品衛生許可證)	Wuzhou Health Bureau (梧州市衛生局)	From 24 April 2007 up to and including 23 April 2011	Dried meat products, sugar and meat

### Other compliance

With respect to all the products we export and sell in overseas markets, we confirm that the onus of fulfilling the requirements of the importing countries and regions is the responsibility of our customers in the importing countries. Our duty under the contract is discharged upon delivering the products to a location designated by the customers.

Wuzhou Protein Factory registered our edible collagen sausage casing products with the FDA for export to the United States in 2003, and we currently maintain such FDA registration in the name of Wuzhou Shenguan.

### LEGAL PROCEEDINGS

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any of our subsidiaries, that would have a material adverse effect on our results of operations or financial condition.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### GENERAL

Our Board consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information relating to our Directors:

Name	Age	Group Position
<b>Executive Directors</b>		
Ms. Zhou Yaxian (周亞仙女士)	49	Executive Director, Chairman and President
Ms. Cai Yueqing (蔡月卿女士)	53	Executive Director and Vice President
Mr. Shi Guicheng (施貴成先生)	46	Executive Director and Vice President
Mr. Ru Xiquan (茹希全先生)	46	Executive Director and Vice President
<b>Non-executive Director</b>		
Mr. Low Jee Keong (劉子強先生)	44	Non-executive Director
<b>Independent Non-executive Directors</b>		
Mr. Tsui Yung Kwok (徐容國先生)	40	Independent Non-executive Director
Mr. Meng Qinguo (孟勤國先生)	52	Independent Non-executive Director
Mr. Yang Xiaohu (楊小虎先生)	34	Independent Non-executive Director

Save as disclosed in this section, none of our Directors has any other directorships in listed companies.

### DIRECTORS

#### Executive Directors

**Ms. Zhou Yaxian** (周亞仙女士), aged 49, is an executive Director, the Chairman of our Board and the President of our Company. She is a founder of our Group and a director of all of our subsidiaries except Wuzhou Xingke. She is primarily responsible for our Group’s overall strategic planning, technology and business management. Ms. Zhou has nearly 30 years of experience in the collagen sausage casing industry. Before founding our Group, she had been involved in the trial production of collagen sausage casings in the Meat Products Factory of Wuzhou Food Products Corporation (梧州市食品總公司肉類製品廠) from 1979 to 1989 and was employed by Wuzhou Protein Factory in 1989, mainly responsible for technology development. She was appointed the head of Wuzhou Protein Factory and the



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Deputy General Manager of Wuzhou Zhongheng in 1992 and 1997, respectively. Since 2004, Ms. Zhou has been the Chairman of the board of directors and the General Manager of Wuzhou Shenguan.

Ms. Zhou completed the course of Economic Management held by The Central Party School (中共中央黨校) in December 2001. She was a member of the 10th National People’s Congress from February 2003 to February 2008 and is a senior engineer in biotechnology. She is one of the inventors of four national patents in respect of production method and facilities for collagen sausage casings and has received special allowances granted by the State Council since 2008. Ms. Zhou was awarded the “The Third Class Prize in National Science and Technology Advancement Award” (國家科學技術進步三等獎) by the National Science and Technology Committee of the PRC (中華人民共和國國家科學技術委員會) in 1995, the “Guangxi Outstanding Expert” (廣西優秀專家) by the Wuzhou Government in 2006, the “Influential Person in China Meat Industry” (中國肉類行業影響力人物) by the China Meat Association (中國肉類協會) in 2007, the “2007 Guangxi Outstanding Entrepreneur” (2007年度廣西優秀企業家) jointly by the Guangxi Enterprises Union (廣西企業聯合會) and the Guangxi Entrepreneurs Association (廣西企業家協會) in 2008, the “China Outstanding Female Entrepreneur” (中國傑出創業女性) by the China Female Entrepreneurs Association (中國女企業家協會) in 2008 and the “Binshan Cup Technological Innovative Figure in China Meat Industry” (冰山杯 – 中國肉類產業科技創新人物) in 2009. She was appointed as a Director on 24 February 2009 and redesignated as an executive Director, and appointed as the Chairman of our Board on 19 September 2009.

**Ms. Cai Yueqing (蔡月卿女士)**, aged 53, is an executive Director and the Vice President of our Company. She is primarily responsible for our Group’s production management. She has nearly 17 years of experience in the collagen sausage casing industry. Ms. Cai graduated at Wuzhou Branch of Guangxi University (廣西大學梧州分校) and attained the Professional Qualification Certificate in Quality Management in January 1998. Ms. Cai joined Wuzhou Protein Factory as the Supervisor of the Quality Control Office in 1992. She was appointed as the Deputy Head of Wuzhou Protein Factory in 1994 and has been the Deputy General Manager of Wuzhou Shenguan since 2004, responsible for production management and quality control. She was appointed as a Director on 19 September 2009.

**Mr. Shi Guicheng (施貴成先生)**, aged 46, is an executive Director and the Vice President of our Company. While Mr. Shi’s official Chinese name is 施貴成, he has previously used another Chinese name 施桂成. He is primarily responsible for our Group’s machinery and equipment management. He is a mechanical engineer and has nearly 17 years of experience in the collagen sausage casing industry. Mr. Shi graduated from Guangxi Central Radio and TV University (廣西廣播電視大學) and attained the Professional Qualification Graduation Certificate in Mechanical Production in July 1987. Mr. Shi joined Wuzhou Protein Factory as the Head of Technology in 1993. He was appointed as the Deputy Head of Wuzhou Protein Factory in 2001 and has been the Deputy General Manager of Wuzhou Shenguan since 2004, responsible for machinery and equipment management, production safety and environmental protection. He was appointed as a Director on 19 September 2009.

**Mr. Ru Xiquan (茹希全先生)**, aged 46, is an executive Director and the Vice President of our Company. He is primarily responsible for matters relating to our Group’s accounting, treasury and financial planning. He has nearly 19 years of experience in the collagen sausage casing industry. Mr. Ru graduated from Guangxi Central Radio and TV University (廣西廣播電視大學) and attained the Professional Qualification Graduation Certificate in Finance and Accounting and Finance in July 1989. He also completed the course of Economic Management held by The Central Party School (中共中央黨校) in 2002. Mr. Ru is an accountant and joined Wuzhou Protein Factory as the Head of the Finance and Accounting Department in 1990. He has been the Chief Accountant of Wuzhou Shenguan since 2004, responsible for matters relating to accounting and finance. He was appointed as a Director on 19 September 2009.



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### Non-executive Director

**Mr. Low Jee Keong** (劉子強先生), aged 44, is a non-executive Director. Mr. Low’s Chinese name 劉子強 is an unofficial name. He is primarily responsible for our Group’s export business. Mr. Low has nearly 17 years of experience in the collagen sausage casing industry. Before founding our Group, Mr. Low, through Exceltech, started his business relationship with Wuzhou Protein Factory for the resale of edible collagen sausage casing products in Malaysia in 1993, and has maintained the relationship with Wuzhou Shenguan after the acquisition of the entire ownership rights of Wuzhou Protein Factory by Wuzhou Shenguan in November 2004. Mr. Low is a founder of our Group and has been a director of Wuzhou Shenguan since 2004. Mr. Low has not been involved in our Group’s day-to-day operations as he resides in Malaysia. However, he has participated, and will continue to participate, in the strategic planning and decision-making processes in our business operations. He is also a director of Full Win and Excel Gather. He was appointed as a Director on 19 September 2009.

### Independent Non-executive Directors

**Mr. Tsui Yung Kwok** (徐容國先生), aged 40, is an independent non-executive Director. He was awarded a bachelor degree in Business (Accounting) by Curtin University of Technology, Australia in August 1992 and a master degree in Corporate Governance by The Hong Kong Polytechnic University in December 2007. Mr. Tsui has nearly 15 years of experience in accounting and finance. He held a senior position in an international accounting firm in Hong Kong from 1994 to 2003 and was the Chief Financial Officer of Qin Jia Yuan Media Services Company Limited (Hong Kong Stock Code: 02366), the shares of which are listed on the Stock Exchange, from 2003-2004. Mr. Tsui has been the Chief Financial Officer and the Company Secretary of Ju Teng International Holdings Limited (Hong Kong Stock Code: 03336), the shares of which are listed on the Stock Exchange since 2004. Mr. Tsui became an Executive Director of Ju Teng International Holdings Limited in June 2005. Mr. Tsui is a member of the Institute of Chartered Accountants in Australia, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries. He was appointed as a Director on 19 September 2009.

**Mr. Meng Qinguo** (孟勤國先生), aged 52, is an independent non-executive Director. He was awarded a Master degree and a Doctorate degree in Law by Wuhan University (武漢大學) in July 1985 and July 2001, respectively. He had been a Senior Visiting Scholar at the University of California, Berkeley, member of the Supervisory Division of Higher Education Institutions Legal Education of Ministry of Education of China (教育部高等學校法學學科教學指導委員會委員), director of China Law Society (中國法學會), the Vice-Chairperson of the Consumer Protection Law Research Centre of China Law Society (中國法學會消費者權益保護法研究會), standing director of China Civil Law Society (中國法學會民法學會), the Vice-Chairperson of Guangxi Law Society (廣西法學會) and Honorary Dean of the law faculty of Guangxi University (廣西大學法學院). Mr. Meng is currently a tutor to Ph.D students in civil and commercial law at Wuhan University (武漢大學) and has received special allowances granted by the State Council.

Mr. Meng is an independent director of Guangxi Wuzhou Communication Co., Ltd. (廣西五洲交通股份有限公司) (Shanghai Stock Code: 600368), the shares of which are listed on the Shanghai Stock Exchange and an independent director of Sealand Securities Limited (國海證券有限責任公司). Mr. Meng was appointed as a Director on 19 September 2009.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. Yang Xiaohu** (楊小虎先生), aged 34, is an independent non-executive Director. He graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 11 years of experience in the financial industry. He joined Everbright Securities Company Limited (光大證券有限公司), focusing on investment banking in 1998 and is currently the General Manager of the Investment Banking Division of the Shenzhen Second Branch of Everbright Securities Company Limited (光大證券有限公司). He was appointed as a Director on 19 September 2009.

### SENIOR MANAGEMENT

**Mr. Mo Yunxi** (莫運喜先生), aged 41, is the Vice President of our Company. He is primarily responsible for our Group’s product and technology developments. He has long been engaged in product development and has nearly 17 years of experience in the collagen sausage casing industry. Mr. Mo graduated from Tianjin College of Commerce (天津商學院), majoring in Food Engineering in July 1990. Mr. Mo joined Wuzhou Protein Factory in 1993 and he has been the Deputy General Manager of Wuzhou Shenguan since 2004. Mr. Mo is a senior engineer in food engineering. He was awarded the “First Prize in Wuzhou Science and Technology Advancement” (梧州市科學技術進步一等獎) and the “First Prize in Guangxi Outstanding Achievement on New Products” (廣西新產品優秀成果一等獎) by the Wuzhou Government and The People’s Government of Guangxi, respectively, in 2008.

**Mr. Ng Yuk Yeung** (吳旭陽先生), aged 36, joined our Company as the Financial Controller in February 2009 and is responsible for supervising our financial reporting, corporate finance, tax and other finance related matters. Mr. Ng has nearly 14 years of experience in auditing and financial management, which was mostly gained from positions in one of the international firms of certified public accountants from 1996 to 1999 and from 2001 to 2002, and in China Resources Enterprise, Limited (Hong Kong Stock Code: 00291), the shares of which are listed on the Stock Exchange, from 2002 to 2007. Mr. Ng attained his Bachelor’s degree in Computer Science from the University of Hong Kong in November 1995 and is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a CFA Charter holder. Mr. Ng is also the Company Secretary of our Company.

### COMPANY SECRETARY

**Mr. Ng Yuk Yeung** (吳旭陽先生), aged 36, was appointed as the Company Secretary on 19 September 2009 on a full-time basis. His biographical details are set out above under the paragraph headed “Senior Management” of this section.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **BOARD COMMITTEES**

#### **Audit Committee**

Our Company established an audit committee pursuant to a resolution of our Directors passed on 19 September 2009 with written terms of reference in compliance with [●] as set out in [●]. The primary duty of the audit committee of our Company is to review and supervise our Company’s financial reporting process and internal control systems of our Group. The audit committee of our Company consists of Mr. Tsui Yung Kwok (徐容國先生), Mr. Meng Qinguo (孟勤國先生) and Mr. Yang Xiaohu (楊小虎先生) (all being independent non-executive Directors). The audit committee of our Company is chaired by Mr. Tsui Yung Kwok (徐容國先生).

#### **Remuneration Committee**

Our Company established a remuneration committee on 19 September 2009 with written terms of reference in compliance with [●] as set out in [●]. The primary duties of the remuneration committee of our Company include making recommendations to the Board on our Company’s structure and policy for remuneration of Directors and senior management, reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Scheme. The remuneration committee of our Company consists of Ms. Zhou, Mr. Meng Qinguo (孟勤國先生) and Mr. Yang Xiaohu (楊小虎先生), of whom Mr. Meng Qinguo (孟勤國先生) and Mr. Yang Xiaohu (楊小虎先生) are independent non-executive Directors. The remuneration committee of our Company is chaired by Mr. Meng Qinguo (孟勤國先生), our independent non-executive Director.

#### **Nomination Committee**

Our Company established a nomination committee on 19 September 2009 with written terms of reference in compliance with [●] as set out in [●]. The primary duties of the nomination committee of our Company include reviewing the structure, size and composition of the board of Directors, assessing the independence of independent non-executive Directors and making recommendations to the board on matters relating to the appointment of Directors. The nomination committee of our Company consists of Ms. Zhou, Mr. Meng Qinguo (孟勤國先生) and Mr. Yang Xiaohu (楊小虎先生), of whom Mr. Meng Qinguo (孟勤國先生) and Mr. Yang Xiaohu (楊小虎先生) are independent non-executive Directors. The nomination committee of our Company is chaired by Ms. Zhou, our executive Director.

### **EMPLOYEES**

We enter into employment contracts with all of our staff in accordance with the relevant PRC laws and regulations. All employees are subject to probation periods ranging from one to six months. All workers must complete a six-month on-the-job training program, which is mainly related to production techniques and production safety. We also hold continuous training program like lectures and seminars for our staff. The salary of our workers in our production lines is based on the quantity of their finished products. As at 31 December 2006, 2007, 2008 and 30 June 2009, we had approximately 390, 402, 1,133 and 1,451 employees, respectively. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our total staff costs were RMB17.3 million, RMB22.5 million, RMB33.7 million and RMB21.3 million, respectively, which accounted for 9.7%, 8.7%, 7.4% and 6.7% of our total revenue. As at the Latest Practicable Date, we employed 1,750 full-time employees. We have not experienced any significant problem with our employees or disruption to our operations due to labor disputes nor have we experienced any difficulty in the recruitment and retention of suitable employees.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table sets forth the approximate number of employees by function as at the Latest Practicable Date:

	<b>Approximate number of employees</b>
General and administration	50
Finance and accounting	6
Sales and marketing	21
Raw materials procurement	12
Quality control	52
Research and development	98
Production	1,445
Others	66
	<hr/>
Total	1,750
	<hr/> <hr/>

The Local Labor and Social Protection Bureau or the institution under its supervision and management has confirmed that no contravention of labor laws and regulations by us has been noted and we have duly paid the social insurance premium during the Track Record Period. Based on the legal opinion of C&F, we have complied with the relevant labor laws and regulations (including but not limited to the Employment Contracts Law of the PRC (《中華人民共和國勞動合同法》)).

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in Appendix VII to this document.

### RETIREMENT SCHEMES

Our employees in the PRC participate in various pension schemes organized by the government under which we are required to make monthly contributions to these plans. The local government is responsible for the planning, management and supervision of the schemes, including collecting and investing the contributions, and paying out the pensions to the retired employees.

The total amount of contributions we made for such employee pension schemes for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 were RMB1.0 million, RMB1.3 million, RMB3.8 million and RMB3.0 million, respectively.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

Our executive Directors receive, in their capacity as our employees, compensation in the form of salaries, bonuses, other allowances and benefits in kind, including our contribution to the pension scheme for our executive Directors, according to the PRC laws. We determine our Directors’ (including independent non-executive Directors) salaries based on each Director’s qualification, position and seniority. Having considered the additional responsibilities of a Director for managing a listed company, the remuneration of our executive Directors is expected to increase to a reasonably higher level following the [●]. In addition to salaries, our Directors may receive discretionary bonuses and/or options under the Share Option Scheme.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which was paid to our Directors for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 was RMB3.5 million, RMB4.2 million, RMB4.4 million and RMB3.7 million, respectively, of which, performance related bonus of RMB3.2 million, RMB4.0 million, RMB4.1 million and RMB3.6 million was paid to our Directors, respectively. Details of the remuneration of each individual Director during the Track Record Period are set out in note 7 to the Accountants’ Report in Appendix I to this document.

During the Track Record Period, Mr. Low, our non-executive Director, had not been involved in our Group’s day-to-day operations as he resides in Malaysia. Accordingly, we did not pay any remuneration to Mr. Low.

Except for the year ended 31 December 2008, during which Ms. Zhou, Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生) and Mr. Ru Xiquan (茹希全先生) had waived performance bonuses of RMB1,148,000, RMB457,000, RMB457,000 and RMB457,000, respectively, there was no other arrangement under which any of our Directors waived or agreed to waive any remuneration during the Track Record Period.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid to our five highest paid individuals for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 were RMB4.1 million, RMB5.0 million, RMB5.2 million and RMB4.4 million, respectively.

It is estimated that remuneration and other benefits in kind equivalent to approximately RMB1.1 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending 31 December 2009 under the arrangements in force at the date of this document, which exclude any option to be granted under the Share Option Scheme and discretionary bonus to be determined by the Board with reference to the financial results of our Group for the year ending 31 December 2009.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in the Track Record Period. Further information about the service agreements and letters of appointment entered into between our Company and our Directors is set out in the paragraphs headed “Particulars of service agreements” and “Directors’ remuneration” in Appendix VII to this document.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [●] and the [●], Rich Top Future, Glories Site, Hong Kong Shenguan, Xian Sheng and Ms. Zhou will control more than 30% of our issued share capital, irrespective of whether the [●] is exercised partially or fully, or at all. For the purpose of the [●], Rich Top Future, Glories Site, Hong Kong Shenguan, Xian Sheng and Ms. Zhou are our Controlling Shareholders. Each of Rich Top Future, Glories Site, Hong Kong Shenguan, Xian Sheng and Ms. Zhou confirms that she/it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our business.

### INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, the Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

- (i) *Financial independence:* Our Group has an independent financial system and relies principally on cash from operations to carry on its business during the Track Record Period. This is expected to continue after the [●]. Save as disclosed in the paragraph headed “Repayment of bank loans and shareholders’ loans” in the section headed “Future Plans and Use of Proceeds” in this document, all amounts due to/from related parties (except for those of a trading nature) as at 30 June 2009 will be settled or capitalized before the [●]. As at the Latest Practicable Date, we had shareholders’ loans amounting to RMB18.8 million (which will be fully settled or capitalized before or upon the [●] and have no borrowings secured by guarantees or assets provided by our Controlling Shareholders.
- (ii) *Operational independence:* We have established our own organizational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared its operational resources, such as suppliers, customers, marketing, sales and general administration resources with the Controlling Shareholders and/or their associates. Other than the purchases made with Wuzhou Junye Printing Material as set out in the paragraphs headed “Non-exempt continuing connected transactions” under the section headed “Connected transactions” in this document, no services and facilities are intended to be provided by our Controlling Shareholders and/or their associates to our Group. As we have independent suppliers capable of supplying inner packaging materials with comparable quality and price to those offered by Wuzhou Junye Printing Material, our Group is able to operate independently from our Controlling Shareholders after the [●].
- (iii) *Independence of management:* Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group’s business while preserving the management and operational continuity of our Group. The Board’s main function includes the approval of the overall business plans and strategies of our Group, monitoring the implementation of these policies and strategies and the management of our Company. Our Group has an independent management team, which is led by a team of senior management with substantial experience and expertise in the collagen sausage casing business, to implement our Group’s policies and strategies. In addition, the business of our Group has been operated under substantially the same management throughout the Track Record Period and up to the Latest Practicable Date. All our Directors (save for Ms. Zhou) and senior management are independent from our Controlling Shareholders and their respective associates.



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) *Independence of major suppliers:* Our Directors confirm that, save for Wuzhou Junye Printing Material, none of our Controlling Shareholders, our Directors and their respective associates, have any relationship with the major suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

As we have independent suppliers capable of supplying inner packaging materials with comparable quality and price to those offered by Wuzhou Junye Printing Material, our Group is able to source raw materials from independent suppliers.

- (v) *Independence of major customers:* Save as disclosed in the paragraphs headed “Wuzhou Xiansheng – A Minority Shareholder of Wuzhou Shenguan” under the section headed “History, Reorganization and Group Structure” and the paragraphs headed “Customers” under the section headed “Business” in this document, our Directors confirm that none of our Controlling Shareholders, our Directors and their respective associates, have any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.
- (vi) *Ownership of trademarks and patents:* As at the Latest Practicable Date, our Group has registered or obtained licenses for, or is in the process of applying for the registration of, trademarks and patents, which are relevant to our Group’s operation. Such details are set out under the paragraph headed “Intellectual property rights” in Appendix VII to this document.

## NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between our Group and each of Ms. Zhou, Mr. Low and Mr. Wei (the “Covenantors”), each of the Covenantors have executed a deed of non-competition (the “Deeds”) on 19 September 2009 in favor of us (for ourselves and for the benefit of each member of our Group). Pursuant to the Deeds, during the period that the Deeds remains effective, each of the Covenantors irrevocably and unconditionally undertakes with us (for ourselves and for the benefit of each member of our Group) that he/she/it shall not, and shall procure his/her/its associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group save for the holding of not more than 5% shareholding interests (individually or with his/her/its associates) in any company listed on a recognized stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his/her/its associates).

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

When business opportunities which may compete with the business of our Group arise, the respective Covenantor(s) shall, and shall procure their respective associates to, give us notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal. Any decision on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed(s) will be disclosed in the annual report of our Company, and if appropriate, our Company will consider issuing announcements.

Our Board will establish a committee comprising all of our independent non-executive Directors which will be delegated with the authority to review on an annual basis the above undertakings from the Covenantors. The Covenantors also undertake to provide all information necessary for the enforcement of the Deeds as requested by the committee from time to time, and make an annual declaration on compliance with the Deeds in the annual report of our Company.

The Deed(s) shall terminate on the earliest of the date on which (i) in the case of Ms. Zhou, Ms. Zhou and/or her associates shall cease to be interested in aggregate 30 per cent. or more of the entire issued share capital of our Company or otherwise cease to be a Controlling Shareholder; in the case of Mr. Low or Mr. Wei, Mr. Low or Mr. Wei (as the case may be) and/or their respective associates shall cease to be interested in aggregate 10% or more of (direct or indirectly) of the entire issued share capital of Rich Top Future; or if Rich Top Future shall cease to be a Controlling Shareholder; or (ii) our Shares shall cease to be [●] and traded on the [●] (except for temporary suspension of trading of our Shares on the [●] due to any reason).

### **Investment in Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司)**

Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司) was established in Wuzhou on 3 August 2007 and is principally engaged in the operation and development of real estate, sales of commercial houses, property management, and wholesale and retail of building materials. Upon its establishment, Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司) was owned as to 67% by Ms. Zhou, 9% by Mr. Wei, 6% by Mr. He Xiangji (何祥吉先生), 3% by Mr. Ru Xiquan (茹希全先生), 3% by Ms. Cai Yueqing (蔡月卿女士), 3% by Mr. Shi Guicheng (施貴成先生), 3% by Mr. Mo Yunxi (莫運喜先生), 3% by Mr. Li Baowei (黎保偉先生), 2% by an Independent Third Party and 1% by Wuzhou Shenguan, respectively.

In order to focus on its collagen sausage casing business, Wuzhou Shenguan disposed of its 1% equity interest in Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司) to Ms. Zhou on 17 June 2008 for a consideration of RMB100,000, which represented the registered capital contributed by Wuzhou Shenguan.



## CONNECTED TRANSACTIONS

[●]

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following completion of the [●] and the [●] (without taking into account any Shares which may be issued upon the exercise of the [●], or any options that may be granted under the Share Option Scheme and without taking into account the arrangement under the [●]), have interests or [●] in our Shares or underlying Shares which would be required to be disclosed to us and the [●] under the provisions of Divisions 2 and 3 of Part XV of the [●], or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding
Rich Top Future	Beneficial owner	1,010,532,000	63.16
Xian Sheng	Beneficial owner	124,020,000	7.75
Glories Site	Interest in controlled corporation (note 1)	1,010,532,000	63.16
Hong Kong Shenguan	Interest in controlled corporations (note 2)	1,134,552,000	70.91
Ms. Zhou	Interest in controlled corporations (note 2)	1,134,552,000	70.91
Mr. Sha	Interest of spouse (note 3)	1,134,552,000	70.91

*Note:*

- (1) 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 [●].
- (2) Ms. Zhou holds 100% interest in Hong Kong Shenguan and Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Ms. Zhou and Hong Kong Shenguan are 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 [●].
- (3) Mr. Sha is the spouse of Ms. Zhou. 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 [●].

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the [●] and the [●] (without taking into account any Shares which may be issued upon the exercise of the [●], or any options that may be granted under the Share Option Scheme and without taking into account the arrangement under the [●]), have interests or [●] in our Shares or underlying Shares which would be required to be disclosed to us and the [●] under the provisions of [●], or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

## CORNERSTONE INVESTOR

[●]

## SHARE CAPITAL

Assuming the [●] is not exercised at all, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, our issued share capital immediately following the [●] will be as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
20,000,000,000	Shares	200,000,000
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the [●]:</i>		<i>HK\$</i>
1,000,000	Shares in issue at the date of this document	10,000
1,199,000,000	Shares to be issued pursuant to the [●]	11,990,000
400,000,000	Shares to be issued pursuant to the [●]	4,000,000
<i>Total:</i>		
<u>1,600,000,000</u>	Shares	<u>16,000,000</u>

Assuming the [●] is exercised in full, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, our issued share capital immediately following the [●] will be as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
20,000,000,000	Shares	200,000,000
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the [●]:</i>		<i>HK\$</i>
1,000,000	Shares in issue at the date of this document	10,000
1,199,000,000	Shares to be issued pursuant to the [●]	11,990,000
400,000,000	Shares to be issued pursuant to the [●]	4,000,000
60,000,000	Shares to be issued upon exercise of the [●] in full	600,000
<i>Total:</i>		
<u>1,660,000,000</u>	Shares	<u>16,600,000</u>

## **FINANCIAL INFORMATION**

### **BASIS OF PRESENTATION**

[●]

### **OVERVIEW**

For the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, our revenue was RMB178.3 million, RMB259.3 million, RMB454.1 million and RMB317.2 million, respectively, and our profit for the same periods was RMB88.3 million, RMB128.6 million, RMB196.8 million and RMB148.2 million, respectively.

### **KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control. Significant factors include, among others, the following:

#### **Production capacity**

Our sales volume is primarily a function of our production capacity and utilization rate. Currently, we are operating at close to our full production capacity and we are rapidly increasing our production capacity to meet market demand. We have been increasing our production capacity by adding 38 new production lines during the Track Record Period at our old and new production base and are currently working to install an additional 60 production lines during 2009. For further details of our production facilities, please refer to the section headed “Business – Production capacity and production volumes” in this document.

#### **Sales volume and pricing of our products**

Our revenue is determined by our sales volume and the prices at which we sell our products.

## FINANCIAL INFORMATION

Our sales volume has increased consistently across our product segments in 2006, 2007, 2008 and the first half of 2009 as a result of increased demand for our Western-style collagen sausage casing products mainly from our PRC customers, especially in Henan, Guangdong, Sichuan, Fujian and Jiangsu Provinces, coping with our continuous investment in production capacity of the Western-style collagen sausage casing.

The following table sets forth the sales volume of our collagen sausage casing products for the periods indicated:

<i>(Sales volume in meters)</i>	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
Chinese-style collagen sausage casing products	170,501,234	175,330,376	178,457,463	75,028,785	70,081,179
Western-style collagen sausage casing products	281,903,486	457,808,699	863,071,546	369,367,905	641,546,289
Total	<u>452,404,720</u>	<u>633,139,075</u>	<u>1,041,529,009</u>	<u>444,396,690</u>	<u>711,627,468</u>

Our pricing strategy of Chinese-style sausage casings normally follows the pricing trend of the natural sausage casings. For Western-style sausage casing, selling prices are determined with reference to the underlying cost of sales. The weighted average selling price of our products ranged from RMB0.33 per meter to RMB0.46 per meter during the the Track Record Period depending on, among other factors, types, size and diameters of casing of our products.

The average selling prices of our products have risen consistently from RMB0.39 per meter, to RMB0.41 per meter, and then to RMB0.44 per meter over the three years ended 31 December 2006, 2007 and 2008, due to changes in our sales mix to sell more Western-style sausage casings and our ability to increase prices due to our strong market position. The average selling prices of Western-style products are higher than the Chinese-style ones, and the sales volume of the Western-style products increased throughout the Track Record Period, representing 62.3%, 72.3%, 82.9% and 90.2% of total sales volume for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively.

### Costs of raw materials

Our primary raw materials are cattle’s inner skins and packaging materials. Apart from cattle’s inner skins, the other primary ingredients in our products include cellulose, lime and glycerol. These raw materials are available from numerous suppliers. We procure all of our raw materials from domestic suppliers to reduce transportation costs. For the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, raw materials used represented 17.1%, 20.8%, 17.3% and 15.1%, respectively, of our revenue, and constituted 40.4%, 43.7%, 38.5% and 39.7%, respectively, of our cost of sales.

## FINANCIAL INFORMATION

The market prices of our raw materials may fluctuate significantly depending on market supply and demand. Furthermore, the supply of cattle’s inner skins may be subject to factors that are not within our control, such as the outbreak of animal diseases. Over the three years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, we have not experienced any material changes in the price of raw material. We expect that our raw material prices will continue to fluctuate and be affected by inflation in the future.

### **Growth of the PRC economy, urbanization trend, changes in disposable income and consumer spending in the PRC**

Our financial condition and results of operations are affected by the macro-economic conditions and the disposable income levels of consumers in the PRC. We derived 92.6%, 90.6%, 95.1% and 95.1% during the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively, of our total sales from the domestic market in the PRC. According to the National Bureau of Statistics of China (中國國家統計局), the per capita GDP in the PRC experienced rapid growth from 2003 to 2007 and achieved a CAGR of approximately 15.77%. During the same period, the per capita average urban household disposable income in the PRC grew at a CAGR of approximately 12.94%, and the urbanization rate in the PRC (defined as the urban population as a percentage of the total population) increased from approximately 40.5% in 2003 to approximately 44.9% in 2007.

In line with the growth of the PRC economy, growth in disposable income and urbanization trend in the PRC, retail sales of processed meat (including sausages) increased from approximately 205,450 tonnes in 2003 to approximately 374,220 tonnes in 2008, representing a CAGR of approximately 12.74% and retail sales of sausages increased from approximately 55,280 tonnes in 2003 to approximately 107,690 tonnes in 2008, representing a CAGR of approximately 14.27%, according to the Access Asia Report. We believe that these statistics suggest that there is a general positive correlation between disposable income and sausage consumption in the PRC. We expect that our results of operations will continue to benefit from the growth of the PRC economy, the increase in levels of disposable income and urbanisation trend in the PRC.

### **Taxation**

Our PRC subsidiaries are subject to PRC income tax on an individual basis. Before the EIT Law (《中華人民共和國企業所得稅法》) came into effect on 1 January 2008, the normal statutory PRC foreign-invested enterprise income tax rate was 33% of the assessable income as determined in accordance with the relevant PRC income tax rules and regulations. However, PRC national and local tax laws provide for various types of preferential tax treatment applicable to different enterprises. For example, one of our major PRC subsidiaries has been exempt from PRC national foreign-invested enterprise income tax for two years starting from the first year it makes assessable profits and was granted a 50% reduction in tax for three years thereafter. However, following the introduction of the EIT Law (《中華人民共和國企業所得稅法》), effective from 1 January 2008, the preferential tax treatment enjoyed by this subsidiary will be gradually terminated within the following five years. Furthermore, as part of its “Go West” policy directives, the PRC Government provides preferential tax treatment to this subsidiary located in Western China, which may expire by the end of 2010. This subsidiary, has been, and is currently, taxed at preferential income tax rates at 15%. Termination of the preferential tax treatment that we currently enjoy may have a negative impact on our results of operations and financial condition.

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### Competition

We face competition in the PRC domestic market and other countries to which we export our collagen sausage casing products. Moreover, the PRC’s entry into the WTO increased and may continue to increase the level of competition in the PRC market, as it is expected that more foreign competitors may develop their presence and business operations in the PRC market. Notwithstanding the increasing competition, we are the leading collagen casing products manufacturer in the PRC. Our ability to maintain and further increase our profitability will depend on our ability to remain competitive in the collagen sausage casing products industry.

### Government grants and incentives

We received grants of RMB1.7 million, RMB4.3 million, RMB3.6 million and RMB9.3 million from various government organizations, including Wuzhou Finance Bureau (梧州市財政局), for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively, of which, RMB0.4 million, RMB0.2 million, RMB0.2 million and RMB1.3 million were off-set against our research and development expenses and RMB1.3 million, RMB4.1 million, RMB0.3 million and RMB2.3 million were off-set against our interest expenses directly incurred for the acquisition of certain plant and machinery in such years/period, respectively, as the government grants were for these specific purposes. Government grants received for related expenditure that has not yet been undertaken are included as deferred income in the statement of our financial position, and RMB3.0 million and RMB7.0 million was recorded as deferred income as at 31 December 2008 and 30 June 2009. No such deferred income was recorded as at 31 December 2006 and 2007. These government grants represented subsidy income received from various government organizations as incentives to some of our subsidiaries in the PRC. The granting of government grants is approved by local governments on a case-by-case basis. The government grants are not of a recurring nature and there is no assurance that we will continue to receive such grants and incentives in future periods.

The eligibility criteria of the grants varied from different government organizations, but were mainly provided as incentives for entities to invest in production processes or equipment with improved technologies, and entities which are eligible for the grants are requested to provide their investment plans to the government organizations for their approval. After receiving the grants, entities must follow their approved investment plans, or they may be liable to repay the grants. We have no unfulfilled conditions and contingencies relating to the grants. The amount of grants fluctuated throughout the years, as the grants are determined on the basis of approved investments and the budget of the government organizations.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our results of operations and financial condition, are set forth in detail in note 2.2 to the Accountants’ Report set out in Appendix I to this document. Critical accounting policies are those that are both most important to the portrayal of our results of operations and financial condition and require management’s most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management’s current judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements.



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### Property, plant and equipment

Depreciation of our property, plant and equipment, other than construction in progress, is calculated using the straight-line method to allocate cost to their residual values of 3% to 10% over their estimated useful life. The principal annual rates we use for this purpose are as follows:

Buildings . . . . .	3% to 11.3%
Plant and machinery . . . . .	6.4% to 19.4%
Motor Vehicles . . . . .	7.5% to 18%

We review the useful life of our plant, equipment and other fixed assets annually and when there are changes in circumstances that indicate our current expectations differ from previous estimates, the residual values of our assets are reviewed and, if considered appropriate, adjusted at each balance sheet date.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is based on the estimated selling price in the ordinary course of business, less any estimated costs of completion and selling expenses.

The cost of inventories is determined on a weighted average basis. In the case of work in progress and finished goods, cost includes direct materials, direct labor and an appropriate share of manufacturing overhead.

Management periodically reviews our inventories for slow moving inventory, obsolescence or declines in market value. This review requires management to estimate the net realizable value based upon assumptions about future demand and market conditions. If our estimate of net realizable value is below the cost of inventory, we record a provision against the inventories for the difference between cost and net realizable value, which will result in a corresponding increase in our other expenses. If actual market conditions are less favorable than those projected by management, additional inventory provision may be required.

For the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, we did not make any provisions for inventories according to the reviews by our management.

### Trade receivables

We extend credit to customers and other parties in the normal course of business and maintain a provision for impairment of trade receivables for estimated losses resulting from the inability of customers to make required payments. We base such estimates on our historical experience, existing economic conditions and any specific customer collection issues we have identified. Accounts receivable are written off when we determine that the balance will not be collected. Circumstances in which our customers operate may affect their operating performance and cash flows, which in turn may affect our ability to collect trade receivables. As circumstances develop, the financial condition of specific customers change or additional information becomes available, adjustments to the provision for impairment of trade receivables may be required.

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### Revenue recognition

We recognise revenue when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) from the rendering of services, when the services have been rendered; and
- (d) rental income, on a time proportion basis over the lease terms.

### Government grants

We recognise government grants at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grants relate to an expense item, it is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that it is intended to compensate. Where the grants relate to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

## PRINCIPAL INCOME STATEMENT COMPONENTS

### Revenue

Our revenue represents proceeds from the sales of edible collagen sausage casings.

The table below sets forth our revenue generated by our two principal product lines in absolute terms and as a percentage of our total revenue for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Western-style collagen sausage casing products	122,578	68.8	198,791	76.7	395,511	87.1	170,087	87.5	291,673	92.0
Chinese-style collagen sausage casing products	55,701	31.2	60,500	23.3	58,542	12.9	24,382	12.5	25,525	8.0
Total	178,279	100.0	259,291	100.0	454,053	100.0	194,469	100.0	317,198	100.0

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Chinese-style collagen sausage casings contributed 31.2%, 23.3%, 12.9% and 8.0% of our sales for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively, while Western-style collagen sausage casings contributed 68.8%, 76.7%, 87.1% and 92.0%, of our sales for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively.

Our sales of Western-style collagen sausage casings have increased significantly during 2006, 2007 and 2008, representing a CAGR of approximately 79.6%. The increase was due to (i) the PRC’s rapid urbanization and continuous economic development; (ii) our continuous exploration of markets and expansion of sales networks, such as in Henan, Guangdong, Sichuan, Fujian and Jiangsu provinces; (iii) our investment in production capacity for the Western-style collagen sausage casings to address rising demand; and (iv) the increase of automation of sausage production process by manufacturers in the PRC who prefer the use of collagen sausage casings to natural sausage casings, because of its greater product uniformity of collagen sausage casings.

The following table sets forth the sales of our products to provinces in the PRC and other countries for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
<i>(Amount in RMB’000)</i>					
Sales to the PRC:					
Henan	29,921	67,524	208,394	91,676	159,966
Guangdong	50,533	50,535	60,483	23,760	27,589
Sichuan	29,375	39,052	44,740	21,359	27,102
Fujian	7,311	14,758	29,325	11,901	21,603
Jiangsu	5,286	8,731	15,230	5,045	15,000
Liaoning	2,933	3,800	15,101	7,410	10,547
Shandong	2,380	2,156	11,894	3,541	9,581
Hubei	9,885	16,488	9,148	5,589	8,922
Hunan	7,693	7,790	8,406	2,661	3,324
Other provinces	19,790	24,202	29,294	12,386	17,947
Total PRC sales	165,107	235,036	432,015	185,328	301,581
Sales to other countries	13,172	24,255	22,038	9,141	15,617
Total sales	178,279	259,291	454,053	194,469	317,198

Our major customers are located in the PRC. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, 7.4%, 9.4%, 4.9% and 4.9% of sales was generated from our export business, respectively. Southeast Asian countries were the major importers of our Chinese-style sausage casing products while the Western-style sausage casing products were primarily sold to South America.

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Our sales to Henan Province have increased significantly, representing 16.8%, 26.0%, 45.9% and 50.4% of our total sales for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. The increase was mainly due to the fast expansion of several customers in Henan Province.

### Cost of sales

Our cost of sales mainly comprises cost of raw materials, including principally cattle’s inner skin and packaging materials. Cost of raw materials comprised 40.4%, 43.7%, 38.5% and 39.7% of our cost of sales for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. Water, electricity and coal represented 27.1%, 27.6%, 27.9% and 32.1% of our cost of sales for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. Depreciation relates primarily to property, plant and equipment used in production and is calculated on a straight-line basis over the estimated useful life of the assets.

The table below sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
<i>(Amount in RMB’000)</i>					
<b>Cost of sales</b>					
Raw materials used	30,563	53,828	78,591	37,033	47,986
Consumables	457	785	1,085	295	1,642
Water, electricity and coal	20,536	33,922	56,959	25,018	38,749
Salary and employee benefit	9,013	13,118	21,216	10,492	16,110
Depreciation	6,121	8,582	11,384	5,616	8,038
Repair and maintenance	4,879	8,108	12,782	4,951	8,079
Transportation	2,476	5,391	6,713	3,567	4,409
Changes in inventories of finished goods and work in progress	(265)	(8,412)	5,672	(6,828)	(7,966)
Others	1,898	7,760	9,569	4,618	3,727
<b>Total</b>	<b>75,678</b>	<b>123,082</b>	<b>203,971</b>	<b>84,762</b>	<b>120,774</b>

### Other income and gains

Our other income consists primarily of bank interest income and sales of dried meat products. During the Track Record Period, we sold dried meat products directly to retail customers through our three retail outlets in Wuzhou under our brand “Shenguan” (「神冠」), some of which use the collagen sausage casings manufactured by us. The sale of dried meat amounted to approximately RMB1.4 million, RMB2.5 million, RMB1.7 million and RMB0.7 million for the years ended 31 December 2006, 2007,

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2008 and the six months ended 30 June 2009, respectively. We also receive other income from sale of scrap materials and rental income. Our gains consists primarily of gain of disposal of equity investments at fair value through profit or loss and available-for-sale investments.

### **Selling and distribution costs**

Our selling and distribution costs primarily consist of advertising and promotional expenses, transportation expenses, travelling expenses, selling commission and salaries and benefits for our sales employees.

### **Administrative expenses**

Our administrative expenses mainly consist of salaries and benefits for our management and administrative staff, depreciation of property, plant and equipment used for administrative purposes, amortization of technical know how, office supplies expenses, lease expenses, and other miscellaneous expenses.

### **Other expenses**

Our other expenses mainly consist of provision for impairment of trade receivables which are related to long aged trade receivables balances in doubt of collection.

### **Finance costs**

Our finance costs mainly consist of interest payments for our bank borrowings, which are partially offset by government grants in respect of the acquisition of certain plant and equipment.

### **Taxes**

Members of our Group in the PRC are mainly subject to PRC Enterprise Income Tax for Foreign Invested Enterprises and Foreign Enterprises (《中華人民共和國外商投資企業和外國投資企業所得稅》), and PRC value-added tax (“VAT”).

#### *Income tax*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the combined statement of comprehensive income.

- PRC Enterprise Income tax

Wuzhou Shenguan is located in Wuzhou, Guangxi in the Western Region of China and is subject to the region’s preferential corporate income tax (“CIT”) rate of 15% as set out in the Circular on Issues Concerning Preferential Tax Policies for the Development of Western Regions (Cai Shui [2001] No. 202 (財稅[2001]202號文)).

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In accordance with the Income Tax Law of the Peoples’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (Zhuxiling [1991] No. 45 Article 8 (主席令[1991] 45號第八條)), Wuzhou Shenguan is exempted from CIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax exemption for the subsequent three years.

Pursuant to the Circular on the Implementation of Transitional Preferential Corporate Income Tax Policies (Guo Fa [2007] No. 39 (國發[2007] 39號文)), enterprises entitled to the CIT holiday of “two-year exemption and three-year half deduction” shall continue to enjoy the preferential tax treatment following the implementation of the new Law of the People’s Public of China on Corporate Income Tax which came into force on 1 January 2008. The preferential tax policies for the development of Western regions, which allow the preferential CIT rate of 15%, shall continue to apply. Wuzhou Shenguan had successfully obtained an approval in 2008 on grandfathering its preferential tax treatment from the State Tax Bureau of Wanxiu District, Wuzhou City (梧州市萬秀區國家稅務局).

Wuzhou Shenguan’s first profit-making year was for the year ended 31 December 2005, which was also the first year of its tax holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2005 and 2006 and subject to CIT at a rate of 7.5% for the two years ended 31 December 2007 and 2008, and for the year ending 31 December 2009.

Apart from Wuzhou Shenguan, other companies located in the PRC have not been granted any preferential tax treatment and were subject to tax at their statutory tax rates of 33% for the years ended 31 December 2006 and 2007, and 25% for the year ended 31 December 2008 and six months ended 30 June 2009.

Pursuant to the Temporary Measures on the Application and Exemption of Corporate Income Tax on Investments in Domestically Manufactured Equipment on Skills Improvement Projects (《技術改造國產設備抵免企業所得稅暫行辦法》), jointly promulgated by the Ministry of Finance and the State Administration of Taxation, for enterprises investing in skills improvement projects complying with the industry policy of the State (國家產業政策), 40% of the investment amount on domestically manufactured equipment under such projects can be deducted from our Company’s enterprise income tax. Such investment amounts may be aggregated from the various years of purchase within the relevant project time and deducted from our Company’s enterprise income tax of a given tax year. The maximum amount of enterprise income tax deductible each year is the difference between the enterprise income tax of the year of the deduction given and the enterprise income tax for the year immediately before, but if such difference is less than the investment amount deductible, the balance can be set off against enterprise income tax of subsequent years up to a maximum of five years. We enjoyed this tax credit policy during 2006 and 2007, but this policy has ceased to apply since 1 January 2008.

- Overseas income tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and, accordingly, is exempt from payment of Cayman Islands income tax. Our Company’s subsidiary established in BVI was incorporated under the International Business Companies Acts of BVI and, accordingly, is exempt from payment of income tax of BVI.

- Hong Kong profits tax

Pursuant to the relevant tax rules and regulations, Hong Kong companies are not subject to any income tax in Hong Kong on profits generated outside Hong Kong.

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### VAT

Members of our Group operating in the PRC are subject to VAT, which is levied at 17% on the gross transaction amount of the sales or purchase of goods in the PRC. Input VAT on purchases are included in the calculation of cost of sales while output VAT on sales are not recognised as part of the revenue generated by our Group. The output VAT on sales is credited to the “other payables and accruals” in the combined statement of financial position while the input VAT on purchases is debited to the same account in the combined statement of financial position.

### Reconciliation

A reconciliation of the tax expense applicable to profit before tax using the statutory income tax rate of the jurisdictions in which our Company and its subsidiaries are domiciled to the income tax expense at our Group’s effective tax rate for the Track Record Period is as follows:

	Year ended 31 December						Six months ended 30 June	
	2006		2007		2008		2008	
	RMB'000		RMB'000		RMB'000		RMB'000	
Profit before tax	86,125		114,989		213,626		92,859	
Tax at the statutory tax rate	28,421	33%	37,946	33%	53,407	25%	23,215	25%
Lower tax rate for specific provinces or enacted by local authority <i>(note (a))</i>	(28,421)		(29,322)		(37,336)		(16,250)	
Effect on opening deferred tax of decrease in rate	–		–		616		616	
Effect of higher enacted tax rate used for the recognition of deferred tax <i>(note (b))</i>	(220)		(701)		(324)		(858)	
Tax incentives <i>(note (c))</i>	(1,916)		(21,734)		–		–	
Expenses not deductible for tax <i>(note (d))</i>	–		164		449		132	
Tax charge/(credit) at our Group’s effective rate	(2,136)	(2.5%)	(13,647)	(11.9%)	16,812	7.9%	6,855	7.4%

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	Six months ended 30 June 2009					
	Mainland China		Hong Kong		Total	
	RMB'000		RMB'000		RMB'000	
Profit/(loss) before tax	176,217		(13,426)		162,791	
Tax at the statutory tax rate	44,054	25%	(2,215)	16.5%	41,839	25.7%
Lower tax rate for specific provinces or enacted by local authority ( <i>note (a)</i> )	(29,760)		–		(29,760)	
Effect of higher enacted tax rate used for the recognition of deferred tax ( <i>note (b)</i> )	(943)		–		(943)	
Expenses not deductible for tax ( <i>note (d)</i> )	12		2,215		2,227	
Effect of withholding tax at 5% on the distributable profits of our Group's PRC subsidiaries ( <i>note (e)</i> )	1,181		–		1,181	
Tax charge at our Group's effective rate	14,544	8.3%	–	–	14,544	8.9%

*Note:*

- (a) Wuzhou Shenguan was exempted from the Foreign Enterprise Income Tax (“FEIT”) 2006 and was entitled to a 50% reduction on the FEIT in 2007 and 2008. In addition, as part of its “Go West” policy directives, Wuzhou Shenguan was provided a preferential tax treatment at an FEIT rate of 15% as it is located in Western China as specified by the “Go West” policy.
- (b) Deferred tax assets/liabilities were initially recognized at their respective statutory tax rates. When the deferred tax assets/liabilities are being realized/utilized, the tax rates are adjusted with reference to the various preferential tax treatments as detailed in (a) above.
- (c) The tax incentives were claimed by receiving the FEIT credit in 2006 and 2007 for purchase of domestically-manufactured equipment. The total amount of the FEIT credit claimed was RMB23,650,000. The application of tax credit had been approved by the tax authorities, which had been used to deduct the tax payable for 2007 and 2008.
- (d) Expenses not deductible for tax mainly constitute the excess of entertainment expenses and staff costs and benefits above an upper limit, which is calculated with reference to a certain percentage of revenue/deduction threshold for deductible expenses in accordance with PRC tax rules and regulations.
- (e) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For our Group, the applicable rate is 5%. Our Group is therefore subject to withholding tax on dividends distributed by our subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. Thus, we have provided a deferred tax liability of RMB1.2 million for the six months ended 30 June 2009.



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### RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items derived from our combined statement of comprehensive income and their respective percentages of our total revenue.

	Year ended 31 December			Six months ended 30 June	
<i>(Amount in % of Revenue)</i>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>	<b>2009</b>
<b>Revenue</b>	100.0	100.0	100.0	100.0	100.0
<b>Cost of sales</b>	(42.4)	(47.5)	(44.9)	(43.6)	(38.1)
<b>Gross profit</b>	57.6	52.5	55.1	56.4	61.9
Other income and gains	1.4	1.8	0.9	1.0	1.2
Selling and distribution costs	(2.6)	(2.2)	(1.6)	(1.8)	(1.6)
Administrative expenses	(7.3)	(6.8)	(5.1)	(5.8)	(8.8)
Other expenses	(0.2)	(0.6)	(0.3)	0.0	0.0
Finance costs	(0.6)	(0.4)	(2.0)	(2.1)	(1.3)
<b>Profit before tax</b>	48.3	44.3	47.0	47.7	51.4
Tax	1.2	5.3	(3.7)	(3.5)	(4.6)
<b>Profit for the year/period</b>	49.5	49.6	43.3	44.2	46.8
Other comprehensive income	0.0	0.0	0.0	0.0	0.0
<b>Total comprehensive income for the year/period</b>	<b>49.5</b>	<b>49.6</b>	<b>43.3</b>	<b>44.2</b>	<b>46.8</b>
<b>Attributable to:</b>					
Equity holders of our Company	47.6	46.6	38.0	39.8	40.7
Non-controlling interests	1.9	3.0	5.3	4.4	6.1
	<b>49.5</b>	<b>49.6</b>	<b>43.3</b>	<b>44.2</b>	<b>46.8</b>

### The six months ended 30 June 2009 compared to the six months ended 30 June 2008

#### Revenue

Our revenue increased by 63.1% from RMB194.5 million for the six months ended 30 June 2008 to RMB317.2 million for the six months ended 30 June 2009, driven by the significant growth in the sales of Western-style collagen sausage casings, particularly sales in Henan Province.

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Sales of Western-style collagen sausage casings increased by 71.5% from RMB170.1 million for the six months ended 30 June 2008 to RMB291.7 million for the six months ended 30 June 2009. The increase in sales of these products was principally a result of (i) an expansion of our sales and marketing network in the PRC; and (ii) an increase in overall market demand for these products in the PRC as a result of rapid urbanization and continuous economic development. Our sales volume of Western-style collagen sausage casings increased significantly from 369.4 million meters for the six months ended 30 June 2008 to 641.5 million meters for the six months ended 30 June 2009.

Sales to Henan Province increased sharply by 74.5% from RMB91.7 million for the six months ended 30 June 2008 to RMB160.0 million for the six months ended 30 June 2009. This increase was principally a result of the fast expansion of several Henan customers. The sales volume to our largest customer in Henan Province increased from 151.8 million meters for the six months ended 30 June 2008 to 265.8 million meters for the six months ended 30 June 2009. This customer was also our largest customer during the Track Record Period.

### Cost of sales

Cost of sales increased by 42.5% from RMB84.8 million for the six months ended 30 June 2008 to RMB120.8 million for the six months ended 30 June 2009. The increase was consistent with the increase in sales over the same period and was driven by the following factors: (i) the cost of raw materials increased by RMB11.0 million; (ii) water, electricity and coal expenses increased by RMB13.7 million, as a result of the increased production volume; and (iii) the direct labor expenses increased by RMB5.6 million, as we hired more workers to support our manufacturing operations.

### Gross profit

Gross profit increased by 79.0% from RMB109.7 million for the six months ended 30 June 2008 to RMB196.4 million for the six months ended 30 June 2009, while our gross profit margin increased from 56.4% for the six months ended 30 June 2008 to 61.9% for the six months ended 30 June 2009. The increase in gross profit margin was mainly driven by the relatively lower percentage of cost of raw materials for the six months ended 30 June 2009. In November 2008 and in the first half of 2009, we installed an additional 10 and 20 production lines, respectively, in addition to the 46 production lines as at 1 December 2008. As a result of the increase in the number of production lines, we have divided the production lines into groups, and each production group will specifically produce certain products with similar styles and diameters, so that we are able to reduce our machinery re-configuration for switching between productions of different products. Together with our improved production technologies, we reduced our raw material used for the six months ended 30 June 2009.

### Other income and gains

Other income and gains increased by 101.8% from RMB1.9 million for the six months ended 30 June 2008 to RMB3.9 million for the six months ended 30 June 2009. This was mainly caused by an increase in government grants of RMB1.7 million for the six months ended 30 June 2009. Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land, and plant and equipment. The government grants received relating to assets were recognized as deferred income and released to other income over the expected useful life of the relevant assets.

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### Selling and distribution costs

Selling and distribution expenses increased by 52.4% from RMB3.4 million for the six months ended 30 June 2008 to RMB5.2 million for the six months ended 30 June 2009. This was mainly due to an increase in transportation expense in the amount of RMB0.4 million and an increase in staff salary of RMB1.1 million. Selling and distribution expenses accounted for 1.8% of our revenue for the six months ended 30 June 2008 and 1.6% of our revenue for the six months ended 30 June 2009. The decrease in selling and distribution expenses as a percentage of sales reflected the increase in economies of scale.

### Administrative expenses

Administrative expenses increased by 1.5 times from RMB11.2 million for the six months ended 30 June 2008 to RMB28.1 million for the six months ended 30 June 2009. The increase was mainly caused by the increase in staff salary and benefits which was principally a result of (i) an increase in headcount of administrative staff; (ii) the payment of compensation to some management personnel based on the profitability of our operating subsidiary; and (iii) we have incurred legal and professional fees of RMB12.9 million to prepare for the [●] for the six months ended 30 June 2009.

### Other expenses

Other expenses were RMB49,000 and RMB86,000 for the six months ended 30 June 2008 and 2009, respectively.

### Finance costs

Finance costs increased by 2.4% from RMB4.1 million for the six months ended 30 June 2008 to RMB4.2 million for the six months ended 30 June 2009. This increase was due to an increase in average bank borrowings for the six months ended 30 June 2009, but the effect was partially offset by an increase in government grants to subsidize interest expenses. In order to finance our increase in the number of production lines from 56 as at 31 December 2008 to 76 as at 30 June 2009, we increased our bank borrowings kept increasing during the six months ended 30 June 2009.

Grants of RMB2.3 million received for the six months ended 30 June 2009 were specifically related to bank borrowings raised to finance new investments in plant and machinery, so that the grants were deducted from finance costs incurred. For the six months ended 30 June 2008, we financed our capital expenditure mainly by internally generated funds instead of new bank borrowings. As a result, only RMB0.3 million was deducted from finance costs for the six months ended 30 June 2008.

### Income tax expenses

Income tax expenses were RMB14.5 million for the six months ended 30 June 2009, as compared to RMB6.9 million for the six months ended 30 June 2008. Our major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its location in Western China and was also entitled to a 50% reduction on the FEIT for both 2008 and 2009, so the applicable tax rate for Wuzhou Shenguan was 7.5% for these years.

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In 2007, pursuant to technical confirmation letters issued by Economic Commission of Zhuang Autonomous Region, Guangxi (廣西壯族自治區經濟委員會), several projects completed in 2005, 2006 and 2007 were confirmed as being in compliance with the industry policy of the State, and the relevant investments on domestically manufactured equipment under these projects were confirmed as eligible for enterprise income tax deduction. The application by Wuzhou Shenguan to deduct 40% of the investment on domestically manufactured equipment against its future increase in enterprise income tax liability was approved by State Tax Bureau, Wanxiu District, Wuzhou (梧州市萬秀區國家稅務局). Accordingly, a total tax credit of RMB21.7 million was granted to Wuzhou Shenguan in 2007, of which RMB7.0 million was utilized in 2007, and the remaining balance of RMB14.7 million was recognized as deferred tax assets as at 31 December 2007 and was fully utilized in 2008 to offset the enterprise income tax payable in 2008. Since this policy had already been ceased since 1 January 2008, there was no such tax credit granted since then and no such tax deduction as made for the six months ended 30 June 2009.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For our Group, the applicable rate is 5%. Our Group is therefore liable to withholding taxes on distributable earnings of our subsidiaries established in the PRC in respect of earnings generated since 1 January 2008. Thus, we have provided a deferred tax liability of RMB1.2 million for the six months ended 30 June 2009.

As a result, our effective tax rates were charged at 7.4% and 8.9% to the profit before tax for the six months ended 30 June 2008 and 2009, respectively.

Total comprehensive income attributable to non-controlling interests

Total comprehensive income attributable to non-controlling interests, increased by 1.3 times from RMB8.5 million for the six months ended 30 June 2008 to RMB19.2 million for the six months ended 30 June 2009. The increase was due to the increase in profit after tax and an increase in percentage of beneficial interests of non-controlling shareholders in Wuzhou Shenguan in March 2008.

During 2007 and from January 2008 to March 2008, apart from Ms. Zhou, our Group’s non-controlling interests related primarily to six shareholders of Wuzhou Xiansheng, which directly held 21.70% equity interest in Wuzhou Shenguan. Ms. Zhou held a 72.40% equity interest in Wuzhou Xiansheng, and each of the other six shareholders held a 4.60% equity interests individually.

Pursuant to a sale and purchase agreement dated 18 March 2008 entered into between Ms. Zhou and Mr. He Xiangji (何祥吉先生), Mr. He Xiangji (何祥吉先生) agreed to purchase a 36.80% equity interest in Wuzhou Xiansheng owned by Ms. Zhou.

Other than Ms. Zhou, all the other shareholders of Wuzhou Xiansheng are considered as non-controlling shareholders of our Group. After the share transfer, the non-controlling shareholders indirectly hold 13.97% (64.40% multiplied by 21.70%) equity interest in Wuzhou Shenguan and its subsidiaries as compared to 5.99% (27.60% multiplied by 21.70%) equity interest before the share transfer.

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Pursuant to a share transfer agreement dated 26 May 2009 entered into between Hong Kong Shenguan and Wuzhou Xiansheng, Wuzhou Xiansheng agreed to transfer its 18.70% equity interest in Wuzhou Shenguan to Hong Kong Shenguan. Pursuant to a share transfer agreement dated 27 May 2009 entered into between Hong Kong Shenguan and Forever Gather, Hong Kong Shenguan agreed to transfer its 63.49% equity interest (including the 18.70% equity interest) in Wuzhou Shenguan to Forever Gather. After the share transfer, the non-controlling shareholders indirectly hold 1.93% (64.40% multiplied by 3.00%) equity interest in Wuzhou Shenguan and its subsidiaries.

Total comprehensive income attributable to the equity holders of our Company

As a result of the facts discussed above, total comprehensive income attributable to the equity holders of our Company increased by 66.4% from RMB77.5 million for the six months ended 30 June 2008 to RMB129.1 million for the six months ended 30 June 2009. Our Group’s net profit margin attributable to equity holders of our Company increased from 39.8% for the six months ended 30 June 2008 to 40.7% for the six months ended 30 June 2009, which was mainly caused by the higher gross profit margin, but the effect was partially offset by the abolishment of the tax deduction of investment on domestically manufactured equipments, the provision of withholding tax at 5% on the distributable profits of our Group’s PRC subsidiaries, incurrence of legal and professional fees for [●] and the increase in the beneficial interests of non-controlling shareholders for the six months ended 30 June 2009.

### **The year ended 31 December 2008 compared to the year ended 31 December 2007**

#### Revenue

Our revenue increased by 75.1% from RMB259.3 million in 2007 to RMB454.1 million in 2008, driven by the significant growth in the sales of Western-style collagen sausage casings, particularly sales to Henan Province.

Sales of Western-style collagen sausage casings increased by 98.9% from RMB198.8 million in 2007 to RMB395.5 million in 2008. The increase in sales of these products was principally a result of (i) an expansion of our sales and marketing network in the PRC; and (ii) an increase in overall market demand for these products in the PRC as a result of rapid urbanization and continuous economic development. Our sales volume of Western-style collagen sausage casings increased significantly from 457.8 million meters in 2007 to 863.1 million meters in 2008.

Sales to Henan Province increased sharply by 2.1 times from RMB67.5 million in 2007 to RMB208.4 million in 2008. This increase was principally a result of the fast expansion of several Henan customers. The sales volume to our largest customer in Henan Province increased from 88.5 million meters in 2007 to 319.1 million meters in 2008. This customer was also our largest customer during the Track Record Period.

#### Cost of sales

Cost of sales increased by 65.7% from RMB123.1 million in 2007 to RMB204.0 million in 2008. The increase was consistent with the increase in sales over the same period and was driven by the following factors: (i) the cost of raw materials increased by RMB24.8 million; (ii) the expenses of water, electricity and coal increased by RMB23.0 million, as a result of the increased production volume; and (iii) direct labor expenses increased by RMB8.1 million, as we hired more workers to support our manufacturing operations and we decided to pay a special bonus of RMB2.2 million in 2008 to reward our workers for their contribution in the past.

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### Gross profit

Gross profit increased by 83.6% from RMB136.2 million in 2007 to RMB250.1 million in 2008, while our gross profit margin increased from 52.5% in 2007 to 55.1% in 2008, mainly due to the relatively higher percentage of raw materials cost in 2007. The cost of raw materials represented 20.8% and 17.3% of the total revenue in 2007 and 2008, respectively. We had a relatively higher percentage of raw materials cost in 2007 because more raw materials were consumed during the phase of testing, implementation and trial production of new production lines installed in 2007. During 2007, a total of 20 production lines were added to our original 26 production lines, which almost doubled our production capacity.

### Other income and gains

Other income and gains decreased by 18.2% from RMB4.7 million in 2007 to RMB3.9 million in 2008. The decrease was mainly caused by the decrease in sales of dried meat products of RMB0.9 million in 2008. Included in our other income and gains, there is a loss on disposal of scrap materials amounted to RMB0.4 million in 2007, as compared to a gain of RMB0.1 million in 2008.

### Selling and distribution costs

Selling and distribution expenses increased by 24.6% from RMB5.7 million in 2007 to RMB7.2 million in 2008. This increase was mainly due to increase in transportation in an amount of RMB1.0 million. As a percentage of sales, selling and distribution expenses were 2.2% in 2007 and 1.6% in 2008. The decrease in selling and distribution expenses as a percentage of sales reflected the increase in economies of scale.

### Administrative expenses

Administrative expenses increased by 31.7% from RMB17.6 million in 2007 to RMB23.1 million in 2008. The increase was mainly caused by the increase in staff salary and benefits because: (i) there was an increase in headcount of administrative staff; and (ii) the compensation of some management personnel were based on the profitability of our operating subsidiary.

### Other expenses

Other expenses decreased by 22.6% from RMB1.6 million in 2007 to RMB1.2 million in 2008. The decrease was mainly caused by the decrease in the provision for impairment of trade receivables by RMB0.5 million.

### Finance costs

Finance costs increased by 7.2 times from RMB1.1 million in 2007 to RMB8.8 million in 2008. This increase was due to an increase in average bank borrowings in 2008, and a decrease in government grants to subsidize interest expenses. In order to finance our increase in the number of production lines from 26 as at 31 December 2006 to 46 as at 31 December 2007, the bank borrowings kept increasing during 2007 and then remained relatively stable during 2008.



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We received grants of RMB4.3 million in 2007 and RMB3.6 million in 2008. Although the amounts of grants were similar for both years, grants of RMB4.1 million received in 2007 are specifically related to bank borrowings raised to finance new investments in plant and machinery, so that the grants were deducted from finance costs incurred. In 2008, we financed our capital expenditure mainly by internally generated funds instead of new bank borrowings. As a result, most of the grants were recognized as a deferred income to match with the useful life of the underlining assets, instead of deducting from the finance costs. Grants of RMB3.0 million were recognized as deferred income as at 31 December 2008 and only RMB0.3 million were deducted from finance costs during 2008.

### Income tax expense

Income tax expenses was a tax charge of RMB16.8 million in 2008, as compared to a tax credit of RMB13.6 million in 2007. Our major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its location in Western China and was also entitled to a 50% reduction on the FEIT for both 2007 and 2008, as a result, the applicable tax rate for Wuzhou Shenguan was 7.5% for both 2007 and 2008.

In 2007, pursuant to technical confirmation letters issued by Economic Commission of Zhuang Autonomous Region, Guangxi (廣西壯族自治區經濟委員會), several projects completed in 2005, 2006 and 2007 were confirmed as in compliance with the industry policy of the State, and the relevant investments on domestically manufactured equipment under these projects were confirmed as eligible for enterprise income tax deduction. The application by Wuzhou Shenguan to deduct 40% of the investment on domestically manufactured equipment against its future increase in enterprise income tax liability was approved by State Tax Bureau, Wanxiu District, Wuzhou (梧州市萬秀區國家稅務局). Accordingly, a total tax credit of RMB21.7 million was granted to Wuzhou Shenguan in 2007, of which RMB7.0 million was utilized in 2007, and the remaining balance of RMB14.7 million was recognised as deferred tax assets as at 31 December 2007 and was fully utilized in 2008 to offset the enterprise income tax payable in 2008.

The tax credit can be applied to offset the current enterprise income tax liability of Wuzhou Shenguan until the amount was fully utilized or expires in 2012.

Wuzhou Shenguan had incurred a current enterprise income tax expenses of RMB8.9 million before taking into consideration the tax credits for the year ended 31 December 2007. Hence, the tax credits of the same amount, of which RMB1.9 million was brought forward from 2006 and RMB7.0 million granted in 2007, were utilized to reduce the enterprise income tax payable to a nil balance as at 31 December 2007. The remaining tax credits of RMB14.7 million carried forward balance was utilized fully in 2008 as the current enterprise income tax for 2008 was greater than the tax credit carried forward.

The effective tax rates were credited at 11.9% and charged at 7.9% to the profit before tax for the year ended 31 December 2007 and 2008, respectively. The increase in the effective tax rate mainly because the tax credit policy on the investment of domestically manufactured equipments was ceased to be effective since 1 January 2008 and no such tax credit was approved and granted to Wuzhou Shenguan since then.

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### Total comprehensive income attributable to non-controlling interests

Total comprehensive income attributable to non-controlling interests, increased by 2.1 times from RMB7.7 million in 2007 to RMB24.0 million in 2008. The increase was due to the increase in profit after tax and an increase in percentage of beneficial interests of non-controlling shareholders in Wuzhou Shenguan in March 2008.

During 2007 and from January 2008 to March 2008, our Group’s non-controlling interests were related primarily to six shareholders of Wuzhou Xiansheng apart from Ms. Zhou, which directly holds 21.70% equity interest of Wuzhou Shenguan. Ms. Zhou held 72.40% equity interest in Wuzhou Xiansheng, and each of the other six shareholders held 4.60% equity interests individually.

Pursuant to a sale and purchase agreement dated 18 March 2008 entered into between Ms. Zhou and Mr. He Xiangji (何祥吉先生), Mr. He Xiangji (何祥吉先生) agreed to purchase 36.80% of the equity interests in Wuzhou Xiansheng owned by Ms. Zhou.

Other than Ms. Zhou, all the other shareholders of Wuzhou Xiansheng are considered as non-controlling shareholders of our Group. After the share transfer, the non-controlling shareholders indirectly hold 13.97% (64.40% multiplied by 21.70%) equity interest in Wuzhou Shenguan and its subsidiaries as compared to 5.99% (27.60% multiplied by 21.70%) equity interest before the share transfer.

### Total comprehensive income attributable to the equity holders of our Company

As a result of the facts discussed above, the total comprehensive income attributable to the equity holders of our Company increased by 42.9% from RMB120.9 million in 2007 to RMB172.9 million in 2008. Our Group’s net profit margin attributable to equity holders of our Company decreased from 46.6% in 2007 to 38.0% in 2008, which was mainly caused by the abolishment of the tax deduction of investment on domestically manufactured equipment, and an increase in percentage of beneficial interests of non-controlling shareholders in 2008.

### The year ended 31 December 2007 compared to the year ended 31 December 2006

#### Revenue

Our revenue increased by 45.4% from RMB178.3 million in 2006 to RMB259.3 million in 2007, driven by the significant growth in the sales of Western-style collagen sausage casings.

Sales of Western-style collagen sausage casings increased by 62.2% from RMB122.6 million in 2006 to RMB198.8 million in 2007. The increase in sales of these products was principally a result of (i) an expansion of the sales and marketing network in the PRC; and (ii) an increase in overall market demand of these products in the PRC due to the change in eating habit of the Chinese people as a result of rapid urbanization and continuous economic development. Our sales volume of these products increased from 281.9 million meters in 2006 to 457.8 million meters in 2007.



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Local sales to provinces such as Henan, Sichuan, Fujian, Jiangsu and Hubei also increased due to our fast business growth and increasing brand recognition. Sales in Henan increased significantly, mainly due to the fast growth of several Henan customers. The sales volume to our largest customer in Henan Province has increased from 49.2 million meters in 2006 to 88.5 million meters in 2007. This customer was also our largest customer during the Track Record Period.

### Cost of sales

Cost of sales increased by 62.6% from RMB75.7 million in 2006 to RMB123.1 million in 2007. The increase was driven by the following factors: (i) the cost of raw materials increased by RMB23.3 million; (ii) the expenses of water, electricity and coal increased by RMB13.4 million, as a result of the increased production volume; and (iii) the labor costs increased by RMB4.1 million, as we hired more workers to support our manufacturing operations.

### Gross profit

Gross profit increased by 32.8% from RMB102.6 million in 2006 to RMB136.2 million in 2007, while gross profit margin decreased slightly from 57.6% in 2006 to 52.5% in 2007, mainly due to the relatively higher percentage of the cost of raw materials in 2007. The cost of raw materials represented 17.1% and 20.8% of our revenue in 2006 and 2007, respectively. We had a relatively higher percentage of the cost of raw materials in 2007 because more raw materials were consumed during the phase of testing, implementation and trial production of new production lines installed in 2007. During 2007, a total of 20 production lines were added to our original 26 production lines, which largely increased our production capacity.

### Other income and gains

Other income and gains increased by 84.1% from RMB2.6 million in 2006 to RMB4.7 million in 2007. This was mainly caused by an increase in the sales of dried meat products of RMB1.1 million in 2007.

### Selling and distribution costs

Selling and distribution costs increased by 25.4% from RMB4.6 million in 2006 to RMB5.7 million in 2007. This was mainly due to: (i) an increase in sales commission in the amount of RMB0.3 million as a result of a growth in export sales; (ii) a RMB0.2 million increase in transportation expense; and (iii) an increase in the amount of RMB0.2 million in travelling expenses in order to explore and develop new markets. As a percentage of sales, selling and distribution costs were 2.6% and 2.2% in 2006 and 2007, respectively. The decrease in selling and distribution costs as a percentage of sales reflected the increase in economies of scale.

### Administrative expenses

Administrative expenses increased by 35.5% from RMB13.0 million in 2006 to RMB17.6 million in 2007. The increase was mainly caused by (i) an increase in staff salary and benefits which was principally a result of an increase in headcount of administrative staff; and (ii) the growth of our business.

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### Other expenses

Other expenses increased by 3.2 times from RMB0.4 million in 2006 to RMB1.6 million in 2007. The increase was mainly caused by an increase in the impairment of trade receivables by RMB1.1 million.

### Finance costs

Finance costs were relatively stable at RMB1.1 million in 2006 and 2007. We received RMB1.3 million and RMB4.1 million government grants as subsidies of interest expenses in 2006 and 2007, respectively.

### Income tax expense

Income tax credit was RMB2.1 million in 2006, as compared to RMB13.6 million in 2007. Our major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its location in North-Western China and was also exempted from the FEIT for the year ended 31 December 2006 and was entitled to a 50% reduction on the FEIT for the year ended 31 December 2007. As a result, the applicable tax rate for Wuzhou Shenguan was nil and 7.5% for 2006 and 2007, respectively.

Pursuant to technical confirmation letters issued by Economic Commission of Zhuang Autonomous Region, Guangxi (廣西壯族自治區經濟委員會), several projects completed in 2005, 2006 and 2007 were confirmed as in compliance with the industry policy of the State, and the relevant investments on domestically manufactured equipment under these projects were confirmed as eligible for enterprise income tax deduction. The application by Wuzhou Shenguan to deduct 40% of the investment on domestically manufactured equipment against its future increase in enterprise income tax liability was approved by State Tax Bureau, Wanxiu District, Wuzhou (梧州市萬秀區國家稅務局). Accordingly, a total tax credit of RMB1.9 million and RMB21.7 million was granted to Wuzhou Shenguan in 2006 and 2007, respectively. Deferred tax assets of RMB1.9 million and RMB14.7 million were recognised as at 31 December 2006 and 2007, respectively, in respect of the unutilised tax credit. In 2007, RMB8.9 million of tax credit was used to offset the enterprise income tax payable.

The tax credit can be applied to offset the current enterprise income tax liability of Wuzhou Shenguan until the amount is fully utilized or expires in 2012.

Wuzhou Shenguan incurred no current enterprise income tax expense for the year ended 31 December 2006 because it was exempted from the FEIT that year. Hence, the tax credit of RMB1.9 million was carried forward and fully utilized in 2007. Wuzhou Shenguan had incurred a current enterprise income tax expense of RMB8.9 million before taking into consideration the tax credits for the year ended 31 December 2007. Hence, the tax credits of the same amount, of which RMB1.9 million was brought forward from 2006 and RMB7.0 million was granted in 2007, were utilized to reduce the enterprise income tax payable to a nil balance as at 31 December 2007.

The effective tax rates were credited at 2.5% and 11.9% to the profit before tax for the year ended 31 December 2006 and 2007, respectively. The decrease in the effective tax rate was mainly due to the increase in applicable tax rate of Wuzhou Shenguan and the increase in amount of tax credit granted on the investment of domestically manufactured equipments in 2007. For the year ended 31 December 2006, Wuzhou Shenguan was exempted from the FEIT. The tax credit of RMB1.9 million was granted by the

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State Tax Bureau in Wuzhou. For the year ended 31 December 2007, Wuzhou Shenguan was subject to a preferential enterprise income tax rate of 7.5% and a total of tax credit of RMB21.7 million was granted.

### Total comprehensive income attributable to non-controlling interests

Total comprehensive income attributable to non-controlling interests increased by 1.2 times from RMB3.4 million in 2006 to RMB7.7 million in 2007. The increase was due to the increase in profit after tax and an increase in percentage of beneficial interests of non-controlling Shareholders in Wuzhou Shenguan in May 2006.

Our Group’s non-controlling interests related primarily to one of the shareholders of Xiansheng Division, who directly held 21.70% equity interest of Wuzhou Shenguan from January 2006 to May 2006, and some of the shareholders of Wuzhou Xiansheng, who directly held 21.70% equity interest of Wuzhou Shenguan from June 2006 to December 2007.

Other than Ms. Zhou, all the other shareholders of both Xiansheng Division and Wuzhou Xiansheng are considered as non-controlling shareholders of our Group. Xiansheng Division was a partnership established in the PRC on 24 November 2004, which was owned as to 95.40% by Ms. Zhou and 4.60% by Ms. Cai Yueqing (蔡月卿女士) before its de-registration on 8 October 2006. During 2006 and 2007, Ms. Zhou held 72.40% equity interest in Wuzhou Xiansheng, and each of the other six shareholders held 4.6% equity interests individually.

Pursuant to a sale and purchase agreement dated 31 May 2006 entered into between Xiansheng Division and Wuzhou Xiansheng, Xiansheng Division agreed to dispose of and Wuzhou Xiansheng agreed to acquire 21.70% equity interest in Wuzhou Shenguan. This has resulted in the non-controlling shareholders’ indirect holding of 5.99% (27.60% multiplied by 21.70%) equity interest in Wuzhou Shenguan and its subsidiaries, as compared to 1.00% (4.60% multiplied by 21.70%) equity interest before the share transfer.

### Total comprehensive income attributable to the equity holders of our Company

As a result of the facts discussed above, total comprehensive income attributable to the equity holders of our Company increased by 42.6% from RMB84.8 million in 2006 to RMB120.9 million in 2007. Our Group’s net profit margin attributable to equity holders of our Company decreased from 47.6% in 2006 to 46.6% in 2007, which was mainly caused by the decrease in gross profit margin due to the relatively higher percentage of cost of raw materials and an increase in percentage of beneficial interests of non-controlling shareholders in 2007, the effect was partially offset by the increase in tax deduction for the purchase of domestically manufactured equipment in 2007.

## LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our working capital, capital expenditure and other capital requirements primarily through cash provided by operations, and cash at hand, while raising the remainder of our requirements primarily through short-term and long-term bank borrowings.

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### Liquidity

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
<i>(Amount in RMB'000)</i>					
Net cash generated from operating activities	91,507	108,105	265,840	91,207	163,664
Net cash used in investing activities	(51,668)	(60,376)	(86,646)	(34,164)	(198,245)
Net cash generated from/(used in) financing activities	(26,409)	(49,341)	(107,754)	12,830	207,024
Net increase/(decrease) in cash and cash equivalents	13,430	(1,612)	71,440	69,873	172,443

### Cash Flows From Operating Activities

Our net cash generated from operating activities increased from RMB91.5 million in 2006 to RMB108.1 million in 2007, and then to RMB265.8 million in 2008. The increase in our net cash generated from operating activities was mainly caused by our improved profitability and our stringent control over our balance of inventory and trade receivables.

For the six months ended 30 June 2009, our net cash generated from operating activities was RMB163.7 million, and was primarily contributed by our profit before tax of RMB162.8 million, adjusted by interest on bank loans of RMB6.5 million and depreciation and amortization of RMB9.5 million. The cash inflow was further increased by a decrease in prepayments, deposits and other receivables of RMB1.2 million, an increase in trade payables of RMB3.4 million and an increase in other payables and accruals of RMB8.0 million, which was partially offset by an increase in inventories of RMB13.0 million and an increase in trade and bills receivables of RMB9.9 million. The increase in trade payables, inventories and trade and bills receivables were caused by the increase in both revenue and cost of sales.

In 2008, our net cash generated from operating activities was RMB265.8 million, and was primarily contributed by our profit before tax of RMB213.6 million, adjusted by interest on bank loans of RMB9.1 million and depreciation and amortisation of RMB13.4 million. The cash inflow was further increased by a decrease in inventories of RMB2.3 million, an increase in trade payables of RMB8.3 million and an increase in other payables and accruals of RMB17.2 million, which was partially offset by increase in trade and bills receivables of RMB2.2 million, and an increase in prepayments, deposits and other receivables of RMB5.8 million. The increase in trade payables and trade and bills receivables were caused by the increase in both revenue and cost of sales. The balance of inventories by the end of 2008 decreased by RMB2.3 million as compared to 2007. The balance of inventories by the end of 2007 was relatively higher because we had completed the construction of a total of 20 production lines in June 2007

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and November 2007 in addition to our original 26 production lines at the beginning of 2007. With our production capacity nearly being doubled, our closing inventories of both work in progress and finished goods were relatively higher by the end of 2007. Included in other payables, advances from customers increased from RMB2.4 million in 2007 to RMB13.6 million in 2008. The increase was mainly caused by large amount of orders placed by customers and the deposits paid correspondingly. In order to fulfill our customers’ requests, we continued to increase our production capacity in 2009 and we have increased the number of our production lines from 56 at the end of 2008 to 106 as at the Latest Practicable Date.

In 2007, our net cash generated from operating activities was RMB108.1 million, and was primarily contributed by our profit before tax of RMB115.0 million, adjusted by interest on bank loans of RMB5.2 million and depreciation and amortisation of RMB10.2 million. The cash inflow was further increased by an increase in trade payable of RMB4.9 million and an increase in other payables and accruals of RMB3.6 million, but was partially offset by an increase in inventories of RMB15.7 million and an increase in trade and bills receivables of RMB8.5 million. The increase in trade payables, inventories and trade and bills receivables were caused by the increase in both revenue and cost of sales.

In 2006, our net cash generated from operating activities was RMB91.5 million, and was primarily contributed by our profit before tax of RMB86.1 million, adjusted by interest on bank loans of RMB2.4 million and depreciation and amortisation of RMB7.7 million. The cash inflow was further increased by a decrease in prepayments, deposits and other receivables of RMB4.2 million and an increase in trade payables of RMB2.1 million, but was partially offset by an increase in inventories of RMB5.6 million and an increase in trade and bills receivables of RMB5.3 million. The increase in trade payables, inventories and trade and bills receivables was caused by the increase in both revenue and cost of sales.

### Cash Flows From Investing Activities

Our cash used in investing activities primarily reflects purchase of land use rights and property, plant and equipment, and available-for-sale investments. Our cash generated from investing activities primarily reflects proceeds from disposal of property, plant and equipment, and available-for-sale investments.

For the six months ended 30 June 2009, our net cash used in investing activities was RMB198.2 million. The primary factors affecting net cash used in investing activities were purchases of property, plant and equipment of RMB145.5 million, prepayment of land lease payments of RMB7.8 million and purchase of available-for-sale investments of RMB45.0 million.

In 2008, our net cash used in investing activities was RMB86.6 million. The primary factors affecting net cash used in investing activities in 2008 were purchases of property, plant and equipment of RMB99.7 million and prepayments of land lease payments of RMB11.2 million, which were partially offset by proceeds from disposal of available-for-sale investments of RMB6.1 million and refund of prepayment of RMB18.0 million related to the proposed acquisition of certain assets in Wuzhou Sanjian which was terminated in 2008.

In 2007, our net cash used in investing activities was RMB60.4 million which consisted primarily of purchases of property, plant and equipment of RMB52.6 million and available-for-sale investments of RMB6.1 million.

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In 2006, our net cash used in investing activities was RMB51.7 million which consisted primarily of purchases of property, plant and equipment of RMB31.5 million and a prepayment of RMB18.0 million related to the proposed acquisition of certain assets in Wuzhou Sanjian which was terminated in 2008. Refund of this prepayment was fully received in 2008.

### **Cash Flows From Financing Activities**

Our cash generated from financing activities primarily reflects capital contributions from shareholders of Wuzhou Shenguan and receipt of bank loans. Our cash used in financing activities primarily reflects interest and dividend payments, and repayments of bank loans.

For the six months ended 30 June 2009, our net cash generated from financing activities was RMB207.0 million, primarily due to receipt of new bank loans of RMB332.0 million. This was partially offset by (i) repayment of bank loans of RMB108.0 million; (ii) dividends payment of RMB10.5 million; and (iii) interest payment of RMB6.5 million.

In 2008, our net cash used in financing activities was RMB107.8 million, primarily due to (i) repayment of bank loans of RMB77.9 million; (ii) dividends payment of RMB97.6 million; and (iii) interest payment of RMB9.1 million. This was partially offset by the receipt of new bank loans of RMB76.9 million.

In 2007, our net cash used in financing activities was RMB49.3 million, primarily due to (i) repayment of bank loans of RMB17.0 million, (ii) dividends payment of RMB115.2 million and (iii) interest payment of RMB5.2 million. This was partially offset by the receipt of new bank loans of RMB88.1 million.

In 2006, our net cash used in financing activities was RMB26.4 million, primarily due to (i) repayment of bank loans of RMB23.7 million, (ii) dividends payment of RMB31.1 million and (iii) interest payment of RMB2.4 million. This was partially offset by (i) receipt of new bank loans of RMB13.0 million; and (ii) capital contribution from shareholders of Wuzhou Shenguan of RMB17.8 million.

### **NET CURRENT ASSETS/(LIABILITIES)**

#### **Net current assets/(liabilities)**

We had net current assets of RMB42.3 million, RMB50.3 million and RMB75.4 million as at 31 December 2006, 2007 and 2008, respectively and net current liabilities of RMB71.5 million as at 30 June 2009.

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The table below sets forth the breakdown of our current assets and liabilities for our operations as at 31 December 2008, 30 June 2009 and 31 August 2009:

	<u>As at 31 December 2008</u>	<u>As at 30 June 2009</u>	<u>As at 31 August 2009</u>
<i>(Amount in RMB'000)</i>			
<b>Current assets</b>			
Inventories	26,817	39,816	40,368
Trade and bills receivables	27,392	37,285	55,320
Prepayments, deposits and other receivables	11,865	10,743	19,293
Available-for-sale investments	–	45,000	–
Cash and bank balances	<u>128,535</u>	<u>300,978</u>	<u>206,511</u>
	<u>194,609</u>	<u>433,822</u>	<u>321,492</u>
<b>Current liabilities</b>			
Trade payables	17,385	20,820	17,775
Other payables and accruals	50,977	135,703	144,076
Dividend payable	–	176,570	8,570
Interest-bearing bank borrowings	48,000	163,000	153,000
Tax payable	<u>2,812</u>	<u>9,190</u>	<u>5,926</u>
	<u>119,174</u>	<u>505,283</u>	<u>329,347</u>
 Net current assets/(liabilities)	 <u><u>75,435</u></u>	 <u><u>(71,461)</u></u>	 <u><u>(7,855)</u></u>

As at 30 June 2009, we have net current liabilities of RMB71.5 million as compared to net current assets of RMB75.4 million as at 31 December 2008. The net current liabilities was mainly caused by the dividend payable of RMB176.6 million. One of our subsidiaries proposed RMB187.0 million during the first half of 2009 in dividends to its then shareholders for profit generated during the year ended 31 December 2008. As at 30 June 2009, only RMB10.5 million of this 2008 dividend was paid. The remaining balance will be fully settled before [●].

As at 30 June 2009, there was an amount due to Glories Site of RMB53.5 million and an amount due to Rich Top Future of RMB28.2 million included in other payables and accruals. Pursuant to a share transfer agreement dated 27 May 2009 entered into between Exceltech and Excel Gather, Exceltech agreed to transfer its 20.21% equity interest in Wuzhou Shenguan to Excel Gather for consideration of RMB17.0 million. Pursuant to a share transfer agreement dated 27 May 2009 entered into between C.T. Company and Excel Gather, C.T. Company agreed to transfer its 13.30% equity interest in Wuzhou



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Shenguan to Excel Gather for consideration of RMB11.2 million. Rich Top Future provided a shareholder’s loan of RMB28.2 million to Excel Gather to settle the consideration. Pursuant to a share transfer agreement dated 27 May 2009 entered into between Hong Kong Shenguan and Forever Gather, Hong Kong Shenguan agreed to transfer its 63.49% equity interest in Wuzhou Shenguan to Forever Gather for consideration of RMB53.5 million. Glories Site provided a shareholder’s loan of RMB53.5 million to Forever Gather to settle the consideration. As a result of the above transfer agreements for the purpose of the Reorganization, our Group must settle the above consideration to the shareholders, which totaled RMB81.7 million.

Taking into account the estimated [●] from the [●], available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

As at 31 August 2009, being the latest practicable date for our net current assets position in this document before the [●], we had net current liabilities of RMB7.9 million as compared to net current liabilities of RMB71.5 million as at 30 June 2009. The improvement was mainly caused by net cash inflow from operations and cash received from redemption of available-for-sale investments of RMB45.0 million. We had made use of these cash inflows to settle part of our dividend payable as at 30 June 2009, and the settlement amounted to RMB168.0 million. Our net current liabilities as at 31 August 2009 was mainly caused by the shareholders’ loans provided by Rich Top Future and Glories Sites amounting to RMB81.7 million and interest-bearing bank borrowings of RMB153.0 million which were mainly used for expansion of production capacity and working capital. The shareholders’ loans of RMB81.7 million had been capitalized on 18 September 2009.

### CAPITAL EXPENDITURE

Capital expenditure principally comprises acquisition and construction of land and buildings, plant and machinery, motor vehicles, and construction in progress.

During the Track Record Period, we have progressively increased our annual total capital expenditure.

The following table sets forth our capital expenditure for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
<i>(Amount in RMB'000)</i>					
<b>Capital expenditure</b>					
Purchases of property, plant and machinery	31,497	52,584	99,721	40,471	145,468
Additions of prepaid land lease payments	2,504	1,800	11,187	–	7,781
<b>Total capital expenditure</b>	<b>34,001</b>	<b>54,384</b>	<b>110,908</b>	<b>40,471</b>	<b>153,249</b>



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The following table sets forth the details of our long term prepayments as at the date indicated:

	At 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Purchases of property, plant and machinery	508	1,443	29,391	71,372
Additions of prepaid land lease payments	2,361	4,161	628	–
Deposit paid to acquire certain assets in Wuzhou Sanjian	17,951	17,951	–	–
	<u>20,820</u>	<u>23,555</u>	<u>30,019</u>	<u>71,372</u>

Please refer to “Financial Information – Related Parties Balances” for the details of deposit paid to acquire certain assets from Wuzhou Sanjian.

Long term deposits related to purchases of property, plant and equipment amounted to RMB29.4 million and RMB71.4 million as at 31 December 2008 and 30 June 2009, respectively, of which, RMB22.3 million and RMB34.7 million were related to our new production site located at Wuzhou Industrial Park (梧州市工業園區) as at 31 December 2008 and 30 June 2009, respectively.

As at 31 December 2008 and 30 June 2009, we had contractual capital commitment of RMB22.2 million and RMB44.5 million for the purchase of plant and machinery and RMB24.0 million and RMB18.9 million for the purchase of land and buildings, respectively.

We have historically financed our capital expenditure requirements primarily through cash from operations, cash on hand and bank borrowings. We expect that our capital expenditure will amount to RMB246.8 million in 2009 and RMB468.5 million in 2010. The capital expenditure for 2009 and 2010 are currently planned to be used primarily to expand our production capacity for our Western-style collagen sausage casing. We plan to finance our 2009 and our 2010 capital expenditure requirements primarily with part of the [●] from the [●], cash generated from our operations and bank borrowings.

### AVAILABLE-FOR-SALE INVESTMENTS

Our non-current available-for-sale investments of RMB0.1 million as at 31 December 2007 represented Wuzhou Shenguan’s investment in 1% equity interest in Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司). The investment decision was made by the directors of Wuzhou Shenguan as a first step to diversify our business at that time.

Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司) was established in Wuzhou on 3 August 2007 and is principally engaged in the operation and development of real estate, sales of commercial houses, property management, and wholesale and retail of building materials. Upon its establishment, Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司) was owned as to 67% by Ms. Zhou, 9% by Mr. Wei, 6% by Mr. He Xiangji (何祥吉先

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生), 3% by Mr. Ru Xiquan (茹希全先生), 3% by Ms. Cai Yueqing (蔡月卿女士), 3% by Mr. Shi Guicheng (施貴成先生), 3% by Mr. Mo Yunxi (莫運喜先生), 3% by Mr. Li Baowei (黎保偉先生), 2% by an Independent Third Party and 1% by Wuzhou Shenguan, respectively.

In order to focus our management resources on our collagen sausage casing business, Wuzhou Shenguan disposed of its 1% equity interest in Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司) to Ms. Zhou on 17 June 2008 for consideration of RMB100,000.

Our current available-for-sale investments of RMB6.0 million as at 31 December 2007 represented our purchase of a financial product from Bank of China, which provided an expected return of 1.75% per annum and with a short maturity of 14 days. Our current available-for-sales investments of RMB45.0 million as at 30 June 2009 represented our purchase of a financial products investment agreement dated 1 April 2009 entered into between Wuzhou Shenguan and Wuzhou Branch of Industrial and Commercial Bank of China, pursuant to which Wuzhou Shenguan agreed to subscribe for super-short term RMB financial products offered by Wuzhou Branch of Industrial and Commercial Bank of China in the amount of RMB45,000,000 with an expected return of 1.3%. The financial products were fully redeemed to us on 10 July 2009. The investments were reviewed by a designated member of the management team after careful consideration of our surplus cash in bank and then approved by the board of Wuzhou Shenguan.

No such available-for-sale investments were recorded as at 31 December 2006 and 2008. After [●], our Group may continue to invest in some low risk financial products limited to a pre-approved list of categories including debentures, unit trusts and other low-risk investments, and excluding derivatives and any leveraged investments. The investment budget is pre-approved annually, and reviewed quarterly, by our Directors, with reference to our cash position and in any case not exceeding 15% of the outstanding balance of the total current assets in the latest unaudited management accounts of our Group. The investments will be handled by a designated Director who will report the gain or loss to our Board on a monthly basis.

## EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Our equity investments at fair value through profit or loss of RMB0.2 million as at 31 December 2007 were investments made by Wuzhou Shenguan, and were equity investments listed on the Shanghai [●]. The investments were duly approved by the board of Wuzhou Shenguan.

No such equity investments at fair value through profit or loss were recorded as at 31 December 2006 and 2008, and 30 June 2009. After [●], our Group may continue to invest in some low-risk financial products limited to an pre-approved list of categories including debentures, unit trusts and other low-risk investments, and excluding derivatives and any leveraged investments. The investment budget is pre-approved annually, and reviewed quarterly, by our Directors, with reference to our cash position and in any case not exceeding 15% of the outstanding balance of the total current assets in the latest unaudited management accounts of our Group. The investments will be handled by a designated Director who will report the gain or loss to our Board on a monthly basis.

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### INVENTORY ANALYSIS

Our inventory primarily consists of finished goods, work in progress, and raw materials.

The following table sets forth a summary of our inventory turnover days and total inventories for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Turnover days	51.0	63.0	50.0	50.5
Total inventories (in RMB'000)	13,398	29,111	26,817	39,816

The following table sets forth an inventory turnover days analysis with further breakdown of the inventory balance for work in progress and finished goods versus raw materials:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Work in progress and finished goods				
balance (in RMB'000)	1,771	10,183	4,512	12,478
Cost of sales (in RMB'000)	75,678	123,082	203,971	120,774
Turnover days	7.9	17.7	13.1	12.9
Raw materials balance				
(in RMB'000)	11,627	18,928	22,305	27,338
Cost of raw materials used				
(in RMB'000)	30,563	53,828	78,591	47,986
Turnover days	106.7	103.6	95.7	94.7

The calculation of inventory turnover days is based on the average of the opening balance and the closing balance of inventories divided by cost of sales or cost of raw materials used, as the case may be, and multiplied by 365 days or 183 days, as the case may be.

Inventory turnover days of raw materials decreased during the Track Record Period from 106.7 days in 2006 to 94.7 days for the six months ended 30 June 2009 due to the economies of production associated with our increasing scale of operations. Inventory turnover days of work in progress and finished goods was 7.9 days, 17.7 days, 13.1 days and 12.9 days for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. The inventory turnover days of work in progress and finished goods was relatively higher in 2007 because of the relatively high level of closing inventories at the end of 2007. In June 2007 and November 2007, we had completed the construction of a

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total of 20 production lines for sausage casings in addition to our original 26 production lines. As a result of almost doubled production capacity, our closing inventories of both work in progress and finished goods increased by the end of 2007.

Up to 31 July 2009, subsequent usage and sales of inventories as at 30 June 2009 totalled RMB23.0 million, representing 57.8% of the outstanding balance.

Our policy is to make provision on inventories when obsolete inventories are identified. In addition, we also assess inventory provisions on major inventory items and make specific provisions where necessary. For each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, we made no provision for obsolete inventories. During the Track Record Period, although some of our inventories aged over two years, most of these aged inventories are cattle’s inner skins, which can be stored for three years or more after processed and properly stored under low temperature. After our review, those inventories were still usable and no provision was therefore required.

## INDEBTEDNESS AND OBLIGATIONS

### Interest-Bearing Bank Borrowings

Our bank borrowings as at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB’000)</i>				
Long-term loans				
– secured	18,000	51,000	33,000	32,000
– unsecured	–	15,000	20,000	130,000
Long-term loans due within one year				
– secured	–	–	18,000	13,000
– unsecured	–	5,000	10,000	–
Short-term loans				
– secured	13,000	2,052	–	20,000
– unsecured	–	29,000	20,000	130,000
Total	<u>31,000</u>	<u>102,052</u>	<u>101,000</u>	<u>325,000</u>

#### Notes:

- (a) Our short term loans as at 31 December 2006 were secured by our Group’s prepaid land, buildings, and plant and machinery situated in the PRC, which had aggregate carrying value of RMB21,409,000. The short-term secured loan as at 31 December 2007 was secured by our Group’s letter of credit with carrying value of US\$284,000 (approximately RMB2,160,000). Our short term loan as at 30 June 2009 was secured by a prepaid land located in Wuzhou with a carrying value of RMB12,834,000.
- (b) Our long term loans as at 31 December 2006, 2007 and 2008 and 30 June 2009 were secured by our Group’s prepaid land, buildings and plant and machinery situated in the PRC, which had aggregate carrying values of RMB33,276,000, RMB75,436,000, RMB70,334,000 and RMB95,868,000, respectively.

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Our short term loans carry interest at market rates and the effective interest rate was 6.12%, 6.57% to 8.22%, 5.58% to 5.84% and 4.78% to 5.76% per annum for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. Our long term loans carry interest at market rates and the effective interest rate ranged from 6.73% to 7.13%, 6.93% to 8.42%, 6.34% to 8.51% and 5.40% to 5.94% per annum for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively.

The maturity of our bank borrowings as at the dates indicated is as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Within one year	13,000	36,052	48,000	163,000
In the second year	–	33,000	33,000	30,000
In the third to fifth years inclusive	18,000	33,000	20,000	132,000
Total	31,000	102,052	101,000	325,000

Our debt-to-equity ratio was 18.9%, 53.3%, 34.7% and 191.0% for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009. Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Debt-to-equity ratio increased from 18.9% in 2006 to 53.3% in 2007, which was mainly caused by significant increase in bank borrowings from RMB31.0 million in 2006 to RMB102.1 million in 2007 in order to finance the expansion in production capacity, while the total equity only increased from RMB163.7 million in 2006 to RMB191.4 million in 2007 due to the large amount of dividend of RMB100.9 million paid in 2007 and there was a profit for the year of RMB128.6 million.

Debt-to-equity ratio decreased from 53.3% in 2007 to 34.7% in 2008, which was mainly caused by the relative stable amount of bank borrowings for both 2007 and 2008, while the total equity was increased from RMB191.4 million in 2007 to RMB290.7 million in 2008 due to a relatively smaller amount of dividend of RMB97.6 million paid in 2008, and there was a profit for the year of RMB196.8 million.

Debt-to-equity ratio increased from 34.7% as at 31 December 2008 to 190.1% as at 30 June 2009, which was mainly caused by the significant increase in bank borrowings from RMB101.0 million as at 31 December 2008 to RMB325.0 million as at 30 June 2009, in order to finance the capital expenditure for the significant expansion in production capacity, while the total equity decreased from RMB290.7 million as at 31 December 2008 to RMB170.2 million. Although there was a profit of RMB148.2 million for the six months ended 30 June 2009, our subsidiaries proposed RMB187.0 million during the first half of 2009 in dividend to their then shareholders for profit generated during the year ended 31 December 2008. In addition, pursuant to share transfer agreements all dated 27 May 2009 entered into between Exceltech and Excel Gather, C.T. Company and Excel Gather, and Hong Kong Shenguan and Forever Gather, which in aggregate agreed to transfer a total of 97.0% equity interest in Wuzhou Shenguan at the consideration of RMB81.7 million for the purpose of reorganization, the equity was further reduced by the same amount as a distribution of reserves due to merger accounting.

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As at 30 June 2009, the total bank borrowings available to us was RMB343 million and we have utilized RMB325 million, with an un-utilized balance of RMB18 million.

As of 31 August 2009, being the latest practicable date for the purpose of this indebtedness statement in this document, our total bank borrowings amounted to RMB345.0 million, consisting of short-term unsecured bank loans of RMB120.0 million, long-term secured bank loans of RMB65.0 million and long-term unsecured bank loans of RMB160.0 million. We confirm that there has not been any material change in our indebtedness since 31 August 2009 .

### Contractual Obligations

We lease certain of our outlets in Wuzhou and our Hong Kong office under operating leases arrangements. Leases are negotiated for terms ranging from one to three years. The following table sets forth our minimum lease payments under operating leases falling due as at the dates indicated.

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Within one year	16	26	44	766
In the second to fifth years, inclusive	8	–	19	10
Total	<u>24</u>	<u>26</u>	<u>63</u>	<u>776</u>

In addition to the operating lease commitments set out above, we had the following capital commitments as at the dates indicated.

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Contracted, but not provided for				
Buildings	2,353	1,505	24,019	18,931
Plant and machinery	8,446	6,499	22,189	44,455
Authorized, but not contracted for	–	–	–	368,670
Total	<u>10,799</u>	<u>8,004</u>	<u>46,208</u>	<u>432,056</u>

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With a view to coping with the rising demand for our products, to strengthen our competitive edge and to achieve economies of scales, we intend to purchase new land sites in Wuzhou for the expansion of our production capacity. On 15 April 2009, Wuzhou Shenguan entered into an investment agreement with The People’s Government of Wanxiu District of Wuzhou (梧州市萬秀區人民政府), pursuant to which Wuzhou Shenguan agreed to establish a project company (being Shensheng Jiaoyuan) for the proposed investment, construction and operation of a new project with an intended investment of RMB380.0 million at Wanxiu Sifuchong, Chengdong Town, Wanxiu District, Wuzhou (梧州市萬秀區城東鎮思扶沖). As a result, our capital commitments as at 30 June 2009 increased significantly.

We expect to fund such capital commitments principally from cash generated from our operations and net proceeds from the [●].

### Contingent liabilities

As at 31 August 2009, we had no material contingent liabilities. We are currently not involved in any material legal proceedings, nor aware of any pending or potential material legal proceedings involving our Group. If involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

### Off-balance sheet commitment and arrangements

Except for the commitments set forth above, we do not have any off-balance sheet commitments or arrangements as at 30 June 2009.

### Disclaimers

Save as disclosed in “Financial Information–Indebtedness and Obligations” above, shareholders’ loans of RMB81.7 million which were capitalized on 18 September 2009, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 31 August 2009.

Our Directors confirm that, up to the Latest Practicable Date, there have been no material changes in our indebtedness and contingent liabilities since 31 August 2009, except the declaration of dividend of RMB140.3 million by our subsidiaries in September 2009 to its then shareholders for profit generated during the six months ended 30 June 2009. The dividend payables will be fully settled before [●].



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### TRADE AND OTHER RECEIVABLES

#### Turnover of trade and bills receivables

Our trade and bills receivables represent the receivables from our customers. We grant credit terms to our customers based on their purchase volumes, stability of purchases, creditworthiness and our trading history with the customer. The terms of credit we grant to our customers are usually 30 to 90 days, or request our customers to settle their previous accounts before further acceptance of purchase orders from them. For those customers who only have a small volume of transactions or short trading history with us, they are not eligible for a credit period and we generally request prepayments before delivery. For those overseas customers, settlements of trade and bills receivables are mainly in the form of letters of credit, while local customers usually settle by check or telegraphic transfers.

The following table sets forth the details of our trade and bills receivables as at the dates indicated:

	At 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Trade receivables	18,036	28,793	32,364	41,260
Bills receivable	–	591	–	–
Due from shareholders	1,547	75	595	1,592
less: Impairment	(2,953)	(4,300)	(5,567)	(5,567)
	<u>16,630</u>	<u>25,159</u>	<u>27,392</u>	<u>37,285</u>

The following table sets forth the turnover of our trade and bills receivables for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Turnover of trade and bills receivables (days)	<u>28.5</u>	<u>29.4</u>	<u>21.1</u>	<u>18.7</u>

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The calculation of trade and bills receivables turnover days is based on the average of the opening balance and the closing balance of trade and bills receivables divided by revenue and multiplied by 365 days or 183 days, as the case may be.

Trade receivables turnover days have remained stable in 2006 and 2007 but decreased from 29.4 days in 2007 to 21.1 days in 2008 and then 18.7 days for the six months ended 30 June 2009 due to our improved ability to negotiate and achieve better credit terms from customers.

### Age of trade receivables

The following table sets forth a summary of the age of our trade receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Within 3 months	12,840	21,040	24,382	33,313
3 to 4 months	385	761	177	381
Over 4 months	1,858	2,692	2,238	1,999
Total	<u>15,083</u>	<u>24,493</u>	<u>26,797</u>	<u>35,693</u>

As at 31 December 2006, 2007 and 2008 and 30 June 2009, substantially all of the balances of our trade receivables were due and receivable within a period of 12 months, for which we expect to fully recover the outstanding balance of trade receivables.

In determining impairment losses, we conduct regular reviews of aging analysis and evaluation of collectibles on an individual basis. We estimate that certain trade receivables unsettled over 120 days are still recoverable based on individual analyses of the relevant customers' credit history and financial position. However, such estimates involve inherent uncertainties and the actual unrecoverable amount may be higher than the amount estimated. We made provision for impairment of trade receivables in the amount of RMB0.3 million, RMB1.4 million, RMB1.3 million and nil for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively.

Up to 31 July 2009, subsequent settlements of the outstanding balance of trade and bills receivables as at 30 June 2009 amounted to RMB25.7 million, representing 72.0% of the outstanding balance.

Please refer to “Related Parties Balances” for the details of trade receivables from shareholders.

## FINANCIAL INFORMATION

### Prepayments, deposits and other receivables

The following table sets forth a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Prepayments	2,574	673	9,276	8,255
Current account with Wuzhou Sanjian	1,652	4,022	–	–
Deposits and other receivables	898	732	1,992	1,778
Current portion of prepaid land lease payments	194	194	597	710
	<u>5,318</u>	<u>5,621</u>	<u>11,865</u>	<u>10,743</u>

Prepayments mainly comprise amounts prepaid to suppliers for goods or services to be provided and professional expenses for [●] purpose of RMB4.9 million as at 31 December 2008. The prepayments for professional expenses for [●] purposes was recognized in administrative expenses for the six months ended 30 June 2009 because the [●] project commenced in the beginning of 2009. Deposits and other receivables mainly comprise advances to staff for business trips, rentals and utility deposits.

Please refer to “Related Parties Balances” for the details of current account with Wuzhou Sanjian.

### TRADE AND OTHER PAYABLES

#### Turnover of trade payables

Our trade payables mainly relate to the purchases of raw materials and coal from our suppliers with credit terms generally of 30 to 60 days. We settle our trade payables mainly in the form of cheque and telegraphic transfers.

The table below sets forth the turnover of trade payables for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Turnover of trade payables (days)	<u>32.4</u>	<u>39.7</u>	<u>58.9</u>	<u>66.3</u>

The calculation of trade payables turnover days is based on the average of the opening balance and the closing balance of trade payables divided by purchases multiplied by 365 days or 183 days, as the case may be.

## FINANCIAL INFORMATION

Trade payables turnover days increased from 2006 to 2008 due to our ability to achieve better credit terms from suppliers.

### Age of trade payables

The following table sets forth a summary of the age of our trade payables as at the dates indicated:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Within 1 month	2,748	5,478	12,760	10,983
1 to 2 months	851	1,077	2,829	6,087
2 to 3 months	84	426	639	1,469
Over 3 months	542	2,100	1,157	2,281
Total	<u>4,225</u>	<u>9,081</u>	<u>17,385</u>	<u>20,820</u>

### Other payables and accruals

The following table sets out the breakdown of our other payables and accrual charges as at the dates indicated:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Payable for acquisition of property, plant and equipment	3,397	12,710	6,677	4,193
Payable for additions of land lease payments	–	–	5,436	2,822
Value-added tax and other tax payables	1,795	4,504	6,802	7,089
Accruals for staff salaries, benefits and welfare funds	7,574	9,579	14,577	14,400
Advances from customers	4,456	2,377	13,553	3,864
Amount due to related parties	–	187	484	92,915
Others	2,965	4,754	3,448	10,420
	<u>20,187</u>	<u>34,111</u>	<u>50,977</u>	<u>135,703</u>

Payables for acquisition of property, plant and equipment amounted to RMB3.4 million, RMB12.7 million, RMB6.7 million and RMB4.2 million as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. The amounts represented amounts payable to contractors for the construction of the production facilities in Wuzhou.

## FINANCIAL INFORMATION

Value-added tax and other tax payables amounted to RMB1.8 million, RMB4.5 million, RMB6.8 million and RMB7.1 million as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. The increases mainly resulted from the increases in revenue.

Accruals for staff salaries, benefits and welfare funds amounted to RMB7.6 million, RMB9.6 million, RMB14.6 million and RMB14.4 million as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. The increase in the balance mainly resulted from the hiring of new staff due to our expansion as well as increase in the accruals of welfare fund and bonus payable as a result of increased profit for the year.

Advances from customers increased from RMB2.4 million as at 31 December 2007 to RMB13.6 million as at 31 December 2008. The increase was mainly caused by large amounts of orders placed by customers and the corresponding deposits on those orders to secure supply. In order to fulfill their demand, we have continually expanded our production capacity in 2009 and have increased the number of production lines from 56 at the end of 2008 to 76 as at 30 June 2009. Accordingly, we have been able to meet the increased demand from customers and the back-logged orders have been fulfilled. As a result, advances from customers decreased during the six months ended 30 June 2009 but we planned to increase the number of our production lines to 116 by the end of 2009 in line with the increasing demand.

Please refer to the paragraphs headed “Related Parties Balances” under this section for the details of amount due to related parties.

## FINANCIAL INFORMATION

### RELATED PARTIES BALANCES

The table below sets forth the balances between our Group and the related parties as at the dates indicated:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Amounts due from				
shareholders:				
C.T. Company	671	–	–	823
Exceltech	876	75	595	769
	<u>1,547</u>	<u>75</u>	<u>595</u>	<u>1,592</u>
Amount due to shareholders:				
C.T. Company	–	187	234	3,382
Exceltech	–	–	–	5,159
Ms. Zhou	–	–	–	1,409
Glories Site	–	–	–	53,503
Rich Top Future	–	–	–	28,238
	<u>–</u>	<u>187</u>	<u>234</u>	<u>91,691</u>
Amount due to Hong Kong				
Shenguan	–	–	–	909
	<u>–</u>	<u>–</u>	<u>–</u>	<u>909</u>
Amount due from Wuzhou				
Sanjian	<u>1,652</u>	<u>4,022</u>	<u>–</u>	<u>–</u>
Amount due to Wuzhou Sanjian	<u>–</u>	<u>–</u>	<u>250</u>	<u>315</u>
Amount due to Wuzhou Junye				
Printing Material	<u>88</u>	<u>177</u>	<u>203</u>	<u>212</u>
Deposit paid to acquire certain				
assets in Wuzhou Sanjian	<u>17,951</u>	<u>17,951</u>	<u>–</u>	<u>–</u>

## FINANCIAL INFORMATION

Amounts due from C.T. Company and Exceltech represented outstanding balances for our sales of collagen sausage casing, and are unsecured, interest-free and have repayment terms of 60 days.

Amounts due to C.T. Company as at 31 December 2007 and 2008 represented sales commission payable for the referral of sales to South America, and are unsecured, interest free and is repayable according to the terms of the commission agreement.

The amounts due to C.T. Company, Exceltech and Ms. Zhou as at 30 June 2009 represented expenses paid by them on our Group’s behalf and advances from them to our Group as operating funds in Hong Kong. The balances are unsecured, interest-free and repayable on demand. The amounts will be partly settled before [●] by cash and by capitalization and the remaining balances which are related to [●] incurred will be settled by [●] upon [●].

The amount due to Hong Kong Shenguan which is a company with limited liability wholly owned by Ms. Zhou, represented expenses paid by Hong Kong Shenguan on behalf of our Group. The balance is unsecured, interest-free and repayable on demand. The amount will be partly settled before [●] by cash and by capitalization and the remaining balances which are related to [●] incurred will be settled by [●] upon [●].

As at 30 June 2009, included in other payables and accruals, there was amount due to Glories Site of RMB53.5 million and amount due to Rich Top Future of RMB28.2 million. Pursuant to a share transfer agreement dated 27 May 2009 entered into between Exceltech and Excel Gather, Exceltech agreed to transfer its 20.21% equity interest in Wuzhou Shenguan to Excel Gather for consideration of RMB17.0 million. Pursuant to a share transfer agreement dated 27 May 2009 entered into between C.T. Company and Excel Gather, C.T. Company agreed to transfer its 13.30% equity interest in Wuzhou Shenguan to Excel Gather for consideration of RMB11.2 million. Rich Top Future provided a shareholder’s loan of RMB28.2 million to Excel Gather to settle the consideration. Pursuant to a share transfer agreement dated 27 May 2009 entered into between Hong Kong Shenguan and Forever Gather, Hong Kong Shenguan agreed to transfer its 63.49% equity interest in Wuzhou Shenguan to Forever Gather at the consideration of RMB53.5 million. Glories Site provided a shareholder’s loan of RMB53.5 million to Forever Gather to settle the consideration. As a result of the above transfer agreements for the purpose of the Reorganization, our Group is liable to settle the above consideration to the shareholders, which totaled RMB81.7 million. The amounts will be capitalized before [●].

Balances with Wuzhou Sanjian represent current account caused by sales of coal, rental of a boiler by us, and fund transfer between our Group and Wuzhou Sanjian. The amount is unsecured, interest-free and has no fixed repayment terms. The amount will be fully settled before [●]. As advised by C&F, the loans between Wuzhou Sanjian and Wuzhou Shenguan did not comply with the Lending General Provision (《貸款通則》) implemented on 1 August 1996. Such violation may be subject to a fine up to five times the illegal income gained from relevant transactions. As Wuzhou Shenguan did not charge any interest on the loans to Wuzhou Sanjian, there was no illegal income received by Wuzhou Shenguan and accordingly, C&F has advised that Wuzhou Shenguan will not be subject to any fine or other penalty.



## FINANCIAL INFORMATION

The details of the deposit paid to acquire certain assets in Wuzhou Sanjian are as follows:

Wuzhou Sanjian is principally engaged in the manufacture and sales of medicine and healthy food, and its business is not in competition with our business. The following table sets forth the turnover and loss for the year of Wuzhou Sanjian:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
<i>(Amount in RMB'000)</i>				
Turnover	14,624	19,143	15,169	8,196
Loss for the year	(3,904)	(1,693)	(378)	(223)

The financial information on Wuzhou Sanjian for the years ended 31 December 2006, 2007 and 2008 were audited by a PRC Certified Public Accountants. The financial information for the six months ended 30 June 2009 were extracted from the management accounts of Wuzhou Sanjian.

Pursuant to a sale and purchase agreement dated 12 November 2005 entered into between Wuzhou Shenguan and Wuzhou Sanjian, Wuzhou Shenguan agreed to purchase the land and buildings, plants and equipment, registered trademarks and production licenses of Wuzhou Sanjian for cash consideration of RMB15 million. A supplemental sale and purchase agreement dated 12 December 2005 was entered into between Wuzhou Shenguan and Wuzhou Sanjian, mainly related to the purchase of construction in progress and inventories for consideration of RMB3.0 million in relation to the sale and purchase agreement dated 12 November 2005.

At the time of the entering into of the agreement, we intended to make use of the production facilities, as well as the relevant licences and permits of Wuzhou Sanjian, to commence the application of collagen technologies in the manufacture of cosmetic products. We have then conducted a review of all the business interests held by us and we considered that the principal business activities of Wuzhou Sanjian may not fit with our principal businesses and we verbally agreed with Wuzhou Sanjian to terminate the acquisition on 31 August 2008. As such, the sale and purchase agreement dated 12 November 2005 and the supplemental agreement dated 12 December 2005 entered into among Wuzhou Shenguan and Wuzhou Sanjian did not proceed to completion. The deposit paid was fully refunded before 30 September 2008. Both parties verbally agreed to discontinue the acquisition on 31 August 2008 and such termination was finalized in the form of a termination agreement on 19 June 2009. We are no longer interested in any assets of Wuzhou Sanjian. According to the termination agreement, we are not subject to any penalty, and will not incur any cost as a result of the termination arrangement.

Amount due to Wuzhou Junye Printing Material represents outstanding balance for the purchase of packaging material by us. The amount is unsecured, interest-free and is repayable within 20 days after receipt of goods.

## **FINANCIAL INFORMATION**

During the Track Record Period, we have made advances only to Wuzhou Sanjian. All the balances with other related parties resulted from transactions carried out in the ordinary course of business. We made advances to Wuzhou Sanjian because we intended to acquire certain assets of Wuzhou Sanjian and made use of their production facilities as stated above, and therefore financially supported its business.

The transactions, fund transfer and balances with Wuzhou Sanjian as disclosed in this section will all be terminated and repaid before [●].

Our Directors confirm that the above related parties transactions, except for the sales of coal and rental of boiler with Wuzhou Sanjian, were all conducted on normal commercial terms. The sales of coal is conducted at cost and the rental of boilers, which amounted to RMB10,000 per month, is under mutual agreement without practicable market reference. Both transactions will be discontinued upon [●].

### **WORKING CAPITAL**

Taking into account the estimated [●] from the [●], available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

### **MARKET RISK**

#### **Interest Rate Risk**

Our income and operating cash flows are substantially independent of changes in market interest rates. We have no significant interest-bearing assets. Our exposure to the risk of changes in market interest rates relates primarily to our floating rate bank borrowings. We have not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2006, 2007 and 2008 and 30 June 2009, we estimate that if interest rates at those dates had been 100 basis points higher/lower, with all other variables held constant, our Group’s profit before tax for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 would have been lower/higher (through the impact on floating rate borrowings) by RMB298,000, RMB728,000, RMB963,000 and RMB934,000, respectively.

The sensitivity analysis above has been calculated assuming that the change in interest rates has occurred at each of the statement of financial position dates.

#### **Foreign Exchange Rate Risk**

We mainly operate in the PRC with most transactions settled in RMB. Our assets and liabilities, and transactions arising from our operations are mainly denominated in RMB. We have not used any forward contract or currency borrowing to hedge our exposure as foreign currency risk is considered to be minimal.

## **FINANCIAL INFORMATION**

### **Credit Risk**

We only trade with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our other financial assets, which mainly comprise cash and cash equivalents, available-for-sale financial assets, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since we only trade with recognized and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within our Group as our trade receivables are widely dispersed in different customers.

### **Inflation**

According to the National Bureau of Statistics of China, the PRC’s overall national inflation rate, as represented by the general consumer price index, was approximately 1.8%, 1.5%, 4.8% and 5.9% in the years ended 31 December 2005, 2006, 2007 and 2008, respectively. The inflation rate in China has been subject to an upward trend since 2007. As at the Latest Applicable Date, we had not been materially affected by any inflation. We cannot assure you that the inflation rate in the PRC will decrease or increase in the future. We cannot predict the impact that a sustained increase in inflation will have on our business, financial condition, results of operations or prospects.

### **Profit Forecast for the year ending 31 December 2009**

[●]

## FINANCIAL INFORMATION

### PROPERTY VALUATION

DTZ, an independent property valuer, has valued our property interests, as at 31 August 2009. DTZ’s letters, summary of valuation and valuation certificates issued by DTZ are included in Appendix IV to this document.

The table below sets forth the reconciliation of the net book value of our Group’s property interests from our audited combined financial information as at 30 June 2009 to their value as at 31 August 2009 as stated in Appendix IV to this document:

*(Amounts in RMB’000)*

Net book value of property interests of our Group as at 30 June 2009:	
Prepaid land lease payments	33,291
Buildings	65,737
Investment property	131
Less: Properties without property building certificates	<u>(15,449)</u>
Total as at 30 June 2009	83,710
Movements during the two months ended 31 August 2009:	
– Depreciation/amortization	<u>(323)</u>
Net book value as at 31 August 2009	83,387
Valuation surplus as at 31 August 2009	<u>15,653</u>
Valuation as at 31 August 2009 <i>(Note)</i>	<u><u>99,040</u></u>

*Note:* The property interests of our Group as indicated comprise of the properties valued by DTZ and contained in Appendix IV to this document.

### DIVIDENDS

Subject to the Companies Law, we may declare dividends at a general meeting of our shareholders in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. The principal source of funding for our dividend payment was the cash inflow generated from our operations. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

## FINANCIAL INFORMATION

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on our Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on our Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on our Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- our earnings and profitability;
- our general business condition;
- our financial condition;
- our operating requirements;
- our capital requirements;
- cash demand and cash flow;
- interests of our Shareholders; and
- any other factors which the Board may deem relevant.

Our future dividend payments to our Shareholders will also depend upon the availability of dividends declared and distributed by our subsidiaries in the PRC. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles, which differ in many aspects from HKFRS. PRC laws also require enterprises located in the PRC to set aside part of their net profit as statutory reserves before they distribute dividends. These statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiary companies may also be restricted if they incur losses or by any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

Any dividends on our Shares will be declared and paid in Hong Kong dollars on a per Share basis. Any final dividend for a fiscal year will be subject to our Shareholders’ approval.

Our future dividend policy is that approximately 30% to 50% of our profits available for distribution will be recommended for distribution for each financial year. We may distribute our distributable profits from July 2009 to December 2009 (if any) to our Shareholders after the [●]. There is no assurance that dividends of any amount will be declared or distributed in any year.

## **FINANCIAL INFORMATION**

Our subsidiaries proposed RMB80.9 million, RMB117.6 million, RMB187.0 million and RMB140.3 million in dividends to their then shareholders for profit generated during the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. Historically, we made payment of dividends based on our business and financial conditions as well as interests of our Shareholders at that time. All dividends payable for each year or period during the Track Record Period will be settled before [●]. The principal source of funding for such dividend payments was from the cash inflow generated from our operations.

### **DISTRIBUTABLE RESERVES**

As at 30 June 2009, our Company had no distributable reserve available for distribution to our shareholders.

### **NO SIGNIFICANT INTERRUPTIONS**

Our Directors confirm that there have been no interruptions in our business that may have a significant effect on our results of operations and financial position in the last 12 months.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that there has been no material adverse change in our financial or trading position since 30 June 2009.

## **FUTURE PLANS**

[●]

## APPENDIX I

## ACCOUNTANTS’ REPORT

*The following is the text of a report, prepared for the purpose of incorporation in this document, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.*



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

[30] September 2009

The Directors  
Shenguan Holdings (Group) Limited

Macquarie Capital Securities Limited  
China Merchants Securities (HK) Co., Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Shenguan Holdings (Group) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the “Track Record Period”), prepared on the basis set out in note 2.1 of Section II below, in connection with the proposed [●] of the shares of the Company on the [●] (“[●]”).

The Company was incorporated in the Cayman Islands on 24 February 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a corporate reorganization (the “Reorganization”), as more fully explained in the paragraph headed “Corporate Reorganization” in Appendix VII to this document, the Company became the holding company of the Group on 18 September 2009.

The Group is principally engaged in the manufacture and sale of protein casings for collagen sausages. The Company and its subsidiaries have adopted 31 December as their financial year end date.



## APPENDIX I

## ACCOUNTANTS’ REPORT

Particulars of the subsidiaries comprising the Group as at 30 June 2009 are set out below:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued/registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Excel Gather Limited ("Excel Gather")	Hong Kong 13 February 2009	HK\$1	–	100%	Investment holding
Forever Gather Limited ("Forever Gather")	Hong Kong 26 February 2009	HK\$1	–	100%	Investment holding
Full Win Consultants Limited	British Virgin Islands ("BVI") 2 January 2009	US\$1	100%	–	Investment holding
Jumbo Gain Developments Limited	BVI 2 January 2009	US\$1	100%	–	Investment holding
Shenguan Industrial Company Limited ("Shenguan Industrial") <sup>(1)</sup>	BVI 21 April 2008	US\$10,000	100%	–	Investment holding
Shenguan Investments Company Limited ("Shenguan Investments") <sup>(1)</sup>	Hong Kong 30 April 2008	HK\$0.01	–	100%	Dormant
梧州神冠蛋白腸衣有限公司 (Wuzhou Shenguan Protein Casing Co., Ltd.) ("Wuzhou Shenguan") <sup>(2)</sup>	The People's Republic of China ("PRC") 26 November 2004	RMB84,300,000	–	98.068%	Manufacture and sale of collagen sausage casing
梧州市神冠生物實業開發有限公司 (Wuzhou Shenguan Biological Industrial Development Limited) ("Shenguan Biological") <sup>(3)</sup>	PRC 8 April 2008	RMB30,000,000	–	98.068%	Manufacture and sale of collagen sausage casing
梧州市神生膠原製品有限公司 (Wuzhou Shensheng Collagen Products Limited) ("Shensheng Jiaoyuan")	PRC 29 April 2009	RMB10,000,000	–	98.068%	Collagen technology consulting services

## APPENDIX I

## ACCOUNTANTS’ REPORT

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued/registered paid-up capital	Percentage of equity attributable to		Principal activities
			the Company	Indirect	
廣西梧州星科電子有限公司 (Guangxi Wuzhou Xingke Electronic Company Limited) (“Wuzhou Xingke”) <sup>(4)</sup>	PRC 31 December 2005	RMB500,000	–	98.068%	Dormant
梧州華強食品有限公司 (Wuzhou Huaqiang Food Company Limited) (“Wuzhou Huaqiang”)	PRC 26 May 1993	RMB578,180	–	Note 1	Dormant

<sup>(1)</sup> No audited financial statements had been prepared for the year ended 31 December 2008 as these subsidiaries had not been involved in any significant business transactions.

<sup>(2)</sup> The financial statements for the three years ended 31 December 2006, 2007 and 2008 were audited by 深圳市鵬城會計師事務所有限公司 (Shenzhen Pengcheng Certified Public Accountants Co., Ltd.) registered in the PRC.

<sup>(3)</sup> The financial statements for the period from 8 April 2008 (date of incorporation) to 31 December 2008 were audited by 深圳市鵬城會計師事務所有限公司 (Shenzhen Pengcheng Certified Public Accountants Co., Ltd.) registered in the PRC.

<sup>(4)</sup> The financial statements for the year ended 31 December 2008 were audited by 深圳市鵬城會計師事務所有限公司 (Shenzhen Pengcheng Certified Public Accountants Co., Ltd.) registered in the PRC. As at 30 June 2009, Wuzhou Xingke was in the process of de-registration.

*Note 1:* Wuzhou Huaqiang was initially established in the PRC as a Sino-foreign cooperative joint venture on 26 May 1993 and was de-registered on 31 December 2006. The Group had 75% interest in Wuzhou Huaqiang before it was de-registered.

As at the date of this report, no statutory audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not been involved in any significant business transactions other than the Reorganization described in the paragraph headed “Corporate Reorganization” in the Appendix VII to this document. We have, however, performed our own independent audit of all relevant transactions of the Company since the date of its incorporation.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the combined financial statements of the Company (“Underlying Financial Statements”) and in accordance with the basis set out in Section II below. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report.

The directors of the Company (the “Directors”) are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Directors of the respective companies of the Group are responsible for the preparation and true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. In preparing the Financial Information, it is fundamental that judgements and

## **APPENDIX I**

## **ACCOUNTANTS’ REPORT**

estimations made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

### **Procedures performed in respect of the Track Record Period**

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have carried out such additional procedures as are necessary in accordance with Auditing Guideline.

### **Procedures performed in respect of the 30 June 2008 Financial Information**

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information 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 consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the 30 June 2008 Financial Information.

### **Opinion in respect of the Financial Information of the Track Record Period**

In our opinion, the Financial Information for the Track Record Period prepared on the basis of presentation set out in Section II below gives, for the purpose of this report, a true and fair view of the combined results and combined cash flows of the Group of the Track Record Period and of the combined state of affairs of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009.

### **Review conclusion in respect of the 30 June 2008 Financial Information**

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information does not give a true and fair view of the combined results and combined cash flows of the Group for the six months ended 30 June 2008.

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# ACCOUNTANTS’ REPORT

## I. FINANCIAL INFORMATION

### (a) Combined statements of comprehensive income

	Notes	Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
REVENUE	4	178,279	259,291	454,053	194,469	317,198
Cost of sales		(75,678)	(123,082)	(203,971)	(84,762)	(120,774)
Gross profit		102,601	136,209	250,082	109,707	196,424
Other income and gains	4	2,579	4,747	3,882	1,943	3,921
Selling and distribution costs		(4,579)	(5,740)	(7,153)	(3,410)	(5,196)
Administrative expenses		(12,952)	(17,550)	(23,109)	(11,220)	(28,061)
Other expenses		(386)	(1,603)	(1,240)	(49)	(86)
Finance costs	5	(1,138)	(1,074)	(8,836)	(4,112)	(4,211)
PROFIT BEFORE TAX	6	86,125	114,989	213,626	92,859	162,791
Tax	9	2,136	13,647	(16,812)	(6,855)	(14,544)
PROFIT FOR THE YEAR/PERIOD		88,261	128,636	196,814	86,004	148,247
Other comprehensive income		—	—	—	—	31
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		88,261	128,636	196,814	86,004	148,278
Attributable to:						
Equity holders of the Company		84,817	120,932	172,853	77,529	129,066
Non-controlling interests		3,444	7,704	23,961	8,475	19,212
		88,261	128,636	196,814	86,004	148,278
DIVIDENDS	10	—	100,927	97,634	97,634	187,025

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## ACCOUNTANTS’ REPORT

### (b) Combined statements of financial position

		At 31 December			At 30 June
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	12	101,978	154,364	207,898	300,527
Investment property	13	140	136	133	131
Prepaid land lease payments	14	8,331	8,105	27,479	32,581
Patent	15	4,578	3,720	2,861	2,432
Available-for-sale investments	16	–	100	–	–
Deferred tax assets	17	3,552	17,199	2,908	4,737
Long term prepayments	18	20,820	23,555	30,019	71,372
Total non-current assets		139,399	207,179	271,298	411,780
CURRENT ASSETS					
Inventories	19	13,398	29,111	26,817	39,816
Trade and bills receivables	20	16,630	25,159	27,392	37,285
Prepayments, deposits and other receivables	21	5,318	5,621	11,865	10,743
Available-for-sale investments	16	–	6,000	–	45,000
Equity investments at fair value through profit or loss	22	–	207	–	–
Tax recoverable		–	6,319	–	–
Cash and bank balances	23	58,707	57,095	128,535	300,978
Total current assets		94,053	129,512	194,609	433,822
CURRENT LIABILITIES					
Trade payables	24	4,225	9,081	17,385	20,820
Other payables and accruals	25	20,187	34,111	50,977	135,703
Dividend payable	26	14,302	–	–	176,570
Interest-bearing bank borrowings	27	13,000	36,052	48,000	163,000
Tax payable		–	–	2,812	9,190
Total current liabilities		51,714	79,244	119,174	505,283
NET CURRENT ASSETS/ (LIABILITIES)					
		42,339	50,268	75,435	(71,461)

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**ACCOUNTANTS’ REPORT**

**(b) Combined statements of financial position (continued)**

		At 31 December			At 30 June
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS LESS					
CURRENT LIABILITIES		181,738	257,447	346,733	340,319
NON-CURRENT					
LIABILITIES					
Interest-bearing					
bank borrowings	27	18,000	66,000	53,000	162,000
Deferred income		–	–	3,038	6,961
Deferred tax liabilities	17	–	–	–	1,181
Total non-current liabilities		18,000	66,000	56,038	170,142
Net assets		163,738	191,447	290,695	170,177
EQUITY					
Equity attributable to equity					
holders of the Company					
Issued capital	28	28,204	28,204	63,125	–
Reserves	29	125,727	151,777	186,955	165,029
		153,931	179,981	250,080	165,029
Non-controlling interests		9,807	11,466	40,615	5,148
Total equity		163,738	191,447	290,695	170,177

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## ACCOUNTANTS’ REPORT

### (c) Combined statements of changes in equity

Notes	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Issued capital	Reserve funds*	Capital reserves*	Exchange fluctuation reserve*	Other reserve*	Merger reserve*	Retained profits*		
	RMB'000 (note 28)	RMB'000 (note 29(b))	RMB'000	RMB'000	RMB'000 (note 29(c))	RMB'000 (note 29(d))	RMB'000	RMB'000	RMB'000
At 1 January 2006	12,069	5,577	36,297	-	-	-	3,148	57,091	57,703
Profit for the year	-	-	-	-	-	-	84,817	84,817	88,261
Total comprehensive income for the year	-	-	-	-	-	-	84,817	84,817	88,261
Capital contribution	28(i) 16,834	-	-	-	-	-	-	16,834	17,791
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders	28 (699)	-	-	-	(4,112)	-	-	(4,811)	-
De-registration of a subsidiary	30 -	-	-	-	-	-	-	-	(17)
Transfer from retained profits	-	8,238	-	-	-	-	(8,238)	-	-
At 31 December 2006 and 1 January 2007	28,204	13,815	36,297	-	(4,112)	-	79,727	153,931	163,738
Profit for the year	-	-	-	-	-	-	120,932	120,932	128,636
Total comprehensive income for the year	-	-	-	-	-	-	120,932	120,932	128,636
Dividends	10 -	-	-	-	-	-	(94,882)	(94,882)	(100,927)
Transfer from retained profits	-	568	-	-	-	-	(568)	-	-
At 31 December 2007 and 1 January 2008	28,204	14,383	36,297	-	(4,112)	-	105,209	179,981	191,447
Profit for the year	-	-	-	-	-	-	172,853	172,853	196,814
Total comprehensive income for the year	-	-	-	-	-	-	172,853	172,853	196,814
Capital contribution	28(ii) 68	-	-	-	-	-	-	68	68
Capitalization of reserves	28(iii) 37,249	(6,356)	(30,893)	-	-	-	-	-	-
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders	28 (2,396)	-	-	-	(16,436)	-	-	(18,832)	-
Dividends	10 -	-	-	-	-	-	(83,990)	(83,990)	(97,634)
Transfer from retained profits	-	18,254	-	-	-	-	(18,254)	-	-
At 31 December 2008 and 1 January 2009	63,125	26,281	5,404	-	(20,548)	-	175,818	250,080	290,695
Profit for the period	-	-	-	-	-	-	129,035	129,035	148,247
Other comprehensive income	-	-	-	31	-	-	-	31	31
Total comprehensive income for the period	-	-	-	31	-	-	129,035	129,066	148,278
Acquisition of non-controlling interests in Wuzhou Shenguan	28(iv) 10,152	-	-	-	18,391	-	-	(28,543)	-
Capitalization of reserves	28(v) 9,461	(8,815)	(646)	-	-	-	-	-	-
Dividends	10 -	-	-	-	-	-	(160,889)	(160,889)	(187,025)
Distribution to shareholders	29(e) -	-	-	-	-	(81,771)	-	(81,771)	(81,771)
Elimination of registered capital in connection with the Reorganization	28(vi) (82,738)	-	-	-	-	82,738	-	-	-
At 30 June 2009	-	17,466	4,758	31	(2,157)	967	143,964	165,029	170,177
At 1 January 2008	28,204	14,383	36,297	-	(4,112)	-	105,209	179,981	191,447
Profit for the period	-	-	-	-	-	-	77,529	77,529	86,004
Total comprehensive income for the period	-	-	-	-	-	-	77,529	77,529	86,004
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders	28 (2,396)	-	-	-	(16,436)	-	-	(18,832)	-
Dividends	10 -	-	-	-	-	-	(83,990)	(83,990)	(97,634)
At 30 June 2008 (unaudited)	25,808	14,383	36,297	-	(20,548)	-	98,748	154,688	179,817

\* These reserve accounts comprise the combined reserves in the combined statements of financial position.

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### (d) Combined cash flow statements

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
Notes		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM						
OPERATING ACTIVITIES						
Profit before tax		86,125	114,989	213,626	92,859	162,791
Adjustments for:						
Interest on bank loans	5	2,445	5,164	9,136	4,412	6,521
Bank interest income	4	(714)	(924)	(1,277)	(526)	(1,052)
Loss on disposal of items of property, plant and equipment	6	31	175	312	–	4
Loss on de-registration of a subsidiary	6	52	–	–	–	–
Depreciation	6	6,615	9,131	12,169	5,712	8,467
Amortization of prepaid land lease payments	6	195	226	379	148	580
Amortization of patent	6	858	858	859	430	429
Government grants released		(1,747)	(4,293)	(579)	(414)	(5,336)
		93,860	125,326	234,625	102,621	172,404
Decrease/(increase) in inventories		(5,643)	(15,713)	2,294	(10,929)	(12,999)
Increase in trade and bills receivables		(5,349)	(8,529)	(2,233)	(4,707)	(9,893)
Decrease/(increase) in prepayments, deposits and other receivables		4,224	(303)	(5,841)	(9,119)	1,235
Increase in trade payables		2,066	4,856	8,304	4,671	3,435
Increase/(decrease) in other payables and accruals		(112)	3,570	17,187	2,774	7,985
Receipt of government grants		1,747	4,293	3,617	2,282	9,259
Cash generated from operations		90,793	113,500	257,953	87,593	171,426
Interest received		714	924	1,277	526	1,052
PRC profits tax refunded/(paid)		–	(6,319)	6,610	3,088	(8,814)
Net cash inflow from operating activities		91,507	108,105	265,840	91,207	163,664



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# ACCOUNTANTS’ REPORT

## (d) Combined cash flow statements (continued)

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Net cash inflow from operating activities		91,507	108,105	265,840	91,207	163,664
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(31,497)	(52,584)	(99,721)	(40,471)	(145,468)
Proceeds from disposal of items of property, plant and equipment		284	315	4	–	4
Refund from/(prepayment to) a related party	18	(17,951)	–	17,951	–	–
Purchase of available-for-sale investments		–	(6,100)	–	–	(45,000)
Proceeds from disposal of available-for-sale investments		–	–	6,100	6,100	–
Prepayments of land lease payments		(2,504)	(1,800)	(11,187)	–	(7,781)
Decrease/(increase) in equity investments at fair value through profit or loss		–	(207)	207	207	–
Net cash outflow from investing activities		(51,668)	(60,376)	(86,646)	(34,164)	(198,245)
CASH FLOWS FROM FINANCING ACTIVITIES						
Capital contribution	28	17,791	–	68	–	–
New bank loans		13,000	88,052	76,875	36,875	332,000
Repayment of bank loans		(23,700)	(17,000)	(77,927)	(19,633)	(108,000)
Interest paid		(2,445)	(5,164)	(9,136)	(4,412)	(6,521)
Dividends paid		(31,055)	(115,229)	(97,634)	–	(10,455)
Net cash inflow/(outflow) from financing activities		(26,409)	(49,341)	(107,754)	12,830	207,024

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# ACCOUNTANTS’ REPORT

## (d) Combined cash flow statements (continued)

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
	Notes					
Net cash inflow/(outflow) from financing activities		(26,409)	(49,341)	(107,754)	12,830	207,024
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		13,430	(1,612)	71,440	69,873	172,443
Cash and cash equivalents at beginning of year/period		45,277	58,707	57,095	57,095	128,535
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		58,707	57,095	128,535	126,968	300,978
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	23	46,407	57,095	127,035	121,968	292,478
Time deposits with original maturity of less than three months when acquired	23	12,300	–	1,500	5,000	8,500
		58,707	57,095	128,535	126,968	300,978

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## ACCOUNTANTS’ REPORT

### II. NOTES TO THE FINANCIAL INFORMATION

#### 1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the “Company”) is a limited company incorporated in the Cayman Islands. The Company’s principal place of business in Hong Kong is located at Unit 2902, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong.

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.

#### 2.1 BASIS OF PREPARATION

The Company became the holding company of the companies now comprising the Group on 18 September 2009. Since the Company and the companies now comprising the Group are under common control both before and after the completion of the Reorganization, the financial information (the “Financial Information”) of the Group for the three years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009 (the “Track Record Period”) has been prepared in accordance with the principles of merger accounting.

The combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 have been prepared to present the state of affairs of the Group as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

All intra-group transactions and balances have been eliminated on combination.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting periods commencing from 1 January 2006, 2007, 2008 and 2009, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Track Record Period. It has been prepared under the historical cost convention, except for equity investments at fair value through profit or loss, which have been measured at fair value. The Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information:

HKFRS 2 (Revised)	<i>Share-based Payment</i> <sup>2</sup>
HKFRS 3 (Revised)	<i>Business Combinations</i> <sup>1</sup>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>1</sup>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> <sup>1</sup>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> <sup>1</sup>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> <sup>1</sup>

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Apart from the above, the HKICPA has, in October 2008 and in May 2009, issued *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendment to HKFRS 5 is effective for annual periods on or after 1 July 2009 and the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for amendment to Appendix to HKAS 18 has been specified. The remaining amendments, being amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39, are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2010

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group’s results of operations and financial position.

### 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform with HKFRSs and accounting principles generally accepted in Hong Kong, are set out below:

#### **Basis of combination**

The Financial Information incorporates the financial statements of the Company and its subsidiaries now comprising the Group for the Track Record Period. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries during the Track Record Period is accounted for using the purchase method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs in the Track Record Period as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities of businesses are combined using their existing book values. No amount is recognized in respect of goodwill or any excess of the acquirer’s interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of control combination.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The purchase method of accounting involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

All income, expenses, and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group.

#### **Subsidiaries**

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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## ACCOUNTANTS’ REPORT

The results of subsidiaries are included in the Company’s statement of comprehensive income to the extent of dividends received and receivable. The Company’s investments in subsidiaries are stated at cost less any impairment losses.

### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, investment property and financial assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

### **Related parties**

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group;
- (c) the party is a close member of the family of any individual referred to in (a) or (b); or
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

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Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Annual depreciation rate	Residual value
Buildings	3% to 11.3%	3% to 10%
Plant and machinery	6.4% to 19.4%	3% to 10%
Motor vehicles	7.5% to 18%	3% to 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each statement of financial position date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and production equipment under construction, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Investment property

Investment property is interests in land and building (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is carried at cost including related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment property over lease terms. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset’s carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of comprehensive income during the financial period in which they are incurred.

### Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date.

#### *Patent*

Purchased patent for the technology in manufacturing protein casting for collagen sausage is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of 8 years.

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### *Research and development costs*

All research costs are charged as incurred and included in “Cost of sales” to the statement of comprehensive income.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

### **Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the statement of financial position date.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognized in the statement of comprehensive income. The net fair value gain or loss recognized in the statement of comprehensive income does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for “Revenue recognition” below.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognized in the statement of comprehensive income as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognized in the statement of comprehensive income as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

### *Fair value*

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the statement of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

### **Impairment of financial assets**

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

### *Assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognized in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.



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### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income.

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### **Financial liabilities at amortized cost (including interest-bearing bank borrowings)**

Financial liabilities including trade payables, other payables and accruals and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within “finance costs” in the statement of comprehensive income.

Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

### **Derecognition of financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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### Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the statement of financial position date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Government grants**

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

### **Dividends**

Dividend distribution to the Company’s shareholders is recognized as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

Dividends are simultaneously proposed and declared, because Wuzhou Shenguan’s articles of association grant the Directors the authority to declare dividends. Consequently, dividends are recognized immediately as a liability when they are proposed and declared.

### **Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) from the rendering of services, when the services have been rendered; and
- (d) rental income, on a time proportion basis over the lease terms.

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### **Employee retirement benefit**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rule of the MPF Scheme.

As stipulated by the rules and regulations of the PRC, the Company’s subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The costs of employee retirement benefit are recognized as cost of sales and administrative expenses in the statement of comprehensive income in the period in which they are incurred.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Other borrowing costs are recognized as expenses in the statement of comprehensive income in the period in which they are incurred.

### **Foreign currencies**

The functional currency of the Company is Hong Kong dollar while the presentation currency of the Company for the Financial Information is RMB. Each entity in the Group determines its own functional currency and items included in the Financial Information of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## **2.3 SIGNIFICANT ACCOUNTING ESTIMATES**

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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### *Income tax (“CIT”)*

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realize.

### *Impairment of receivables*

The Group records impairment of receivables based on an assessment of the recoverability of trade receivables and prepayments, deposits and other receivables. The identification of doubtful debts requires the Directors’ estimates. Where the expectation is different from the original estimate, the difference will impact on the carrying values of the trade receivables and prepayments, deposits and other receivables and doubtful debt expenses in the period in which the estimate has been changed.

### *Write-down of inventories to net realizable value*

Write-down of inventories to net realizable value is made based on the estimated net realizable value of the inventories. The assessment of the write-down required involves management’s judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back in the period in which such estimate has been changed.

### *Useful lives of intangible assets*

The Group’s management determines the estimated useful lives, and related amortization charges for its intangible assets. This estimate is based on the management expectation on the actual useful lives of the intangible assets. Management will increase the amortization charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in the future periods.

## 3. 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 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.

### **Information about products**

The revenue of the two major products are as below:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Western-style collagen sausage casing	122,578	198,791	395,511	170,087	291,673
Chinese-style collagen sausage casing	55,701	60,500	58,542	24,382	25,525
	<u>178,279</u>	<u>259,291</u>	<u>454,053</u>	<u>194,469</u>	<u>317,198</u>

### **Information about geographical areas**

Since over 90% of the Group’s revenue is derived from customers based in the PRC and all the Group’s identifiable assets and liabilities are located in the PRC, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

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### Information about major customers

For the year ended 31 December 2006, revenue from two of the Group’s customers amounting to RMB24,711,000 and RMB22,861,000 had individually accounted for over 10% of the Group’s total revenue. Similarly, for the year ended 31 December 2007, revenue generated from two of the Group’s customers amounting to RMB51,678,000 and RMB28,756,000 had individually accounted for over 10% of the Group’s total revenue. For the year ended 31 December 2008, revenue from one customer of the Group amounting to RMB171,480,000 had individually accounted for over 10% of the Group’s total revenue. For the six months ended 30 June 2008, revenue from one customer of the Group amounting to RMB81,489,000 had individually accounted for over 10% of the Group’s total revenue. For the six months ended 30 June 2009, revenue from one customer of the Group amounting to RMB140,854,000 had individually accounted for over 10% of the Group’s total revenue.

### 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group’s turnover, represents the net invoiced good sold, after allowances for returns and trade discounts during the Track Record Period.

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

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<b>Revenue</b>					
Sale of goods	178,279	259,291	454,053	194,469	317,198
<b>Other income, net</b>					
Bank interest income	714	924	1,277	526	1,052
Sales of dried meat products	1,383	2,537	1,659	875	703
Gain/(loss) on disposal of scrap materials	91	(437)	119	66	126
Rental income	34	11	11	6	5
Service income	357	609	55	(26)	35
Government grants*	–	–	129	64	1,776
Others	–	1	4	5	–
	2,579	3,645	3,254	1,516	3,697
<b>Gains</b>					
Gain on disposal of equity investments at fair value through profit or loss	–	1,102	539	423	–
Gain on disposal of available-for-sale investments	–	–	89	4	224
	–	1,102	628	427	224
	2,579	4,747	3,882	1,943	3,921

\* Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land, and plant and equipment. The government grants received relating to assets were recognized as deferred income and released to the other income over the expected useful lives of the relevant assets. The government grants received for the development of business were recognized as other income when conditions of these government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2009.

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### 5. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on bank loans	2,445	5,164	9,136	4,412	6,521
Less: Government grants*	(1,307)	(4,090)	(300)	(300)	(2,310)
	<u>1,138</u>	<u>1,074</u>	<u>8,836</u>	<u>4,112</u>	<u>4,211</u>

\* Various government grants have been received in respect of interest expenses incurred for the acquisition of certain plant and equipment. The government grants received were deducted against related interest expenses when conditions of government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2009.

### 6. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold		30,298	45,416	84,262	30,206	40,019
Depreciation:						
Property, plant and equipment	12	6,611	9,127	12,166	5,711	8,465
Investment property	13	4	4	3	1	2
		<u>6,615</u>	<u>9,131</u>	<u>12,169</u>	<u>5,712</u>	<u>8,467</u>
Loss on disposal of items of property, plant and equipment		31	175	312	–	4
Loss on de-registration of a subsidiary	30	52	–	–	–	–
Amortization of patent*	15	858	858	859	430	429
Amortization of prepaid land lease payments	14	195	226	379	148	580
Foreign exchange differences, net		321	951	425	306	117
Impairment of trade receivables	20	270	1,398	1,267	–	–
Reversal of impairment of other receivables		–	–	(339)	–	–
Research and development costs:						
Current year expenditure		1,556	11,096	23,102	17,230	11,686
Less: Government grants released**		(440)	(203)	(150)	(50)	(1,250)
		<u>1,116</u>	<u>10,893</u>	<u>22,952</u>	<u>17,180</u>	<u>10,436</u>
Staff costs (including directors’ remuneration (note 7)):						
Wages and salaries		16,371	21,187	29,970	10,943	18,352
Retirement benefit contributions		957	1,331	3,756	1,469	2,985
		<u>17,328</u>	<u>22,518</u>	<u>33,726</u>	<u>12,412</u>	<u>21,337</u>
Minimum lease payments under operating leases in respect of buildings		54	72	42	24	223
Auditors’ remuneration		53	50	40	20	–
		<u>54</u>	<u>72</u>	<u>42</u>	<u>24</u>	<u>–</u>

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\* *The amortization of patent for the Track Record Period is included in “Administrative expenses” on the face of the combined statement of comprehensive income.*

\*\* *Various government grants have been received for setting up research activities for improving the quality of protein casing manufacturing by the local government within the Guangxi Province, the PRC. The government grants released have been deducted against the research and development costs to which they related when the conditions of government grants were fulfilled. Government grants received for which related expenditure has not yet been undertaken were included in deferred income in the combined statement of financial position. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2009.*

### 7. DIRECTORS’ REMUNERATION

Directors’ remuneration for the Track Record Period, disclosed pursuant to the [●] and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	269	269	270	136	136
Discretionary performance related bonuses	3,201	3,966	4,136	1,806	3,592
Retirement benefit contributions	8	9	11	5	5
	3,478	4,244	4,417	1,947	3,733
	<u>3,478</u>	<u>4,244</u>	<u>4,417</u>	<u>1,947</u>	<u>3,733</u>

#### (a) Non-executive directors and independent non-executive directors

There were no fees and other emoluments payable to non-executive directors and independent non-executive directors during the Track Record Period.



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(b) The remuneration of the executive directors for the Track Record Period is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
<b>Year ended 31 December 2006</b>					
<i>Executive directors:</i>					
Ms. Zhou Yaxian ("Ms. Zhou")	–	122	1,455	2	1,579
Ms. Cai Yueqing (蔡月卿女士)	–	49	582	2	633
Mr. Shi Guicheng (施貴成先生)	–	49	582	2	633
Mr. Ru Xiquan (茹希全先生)	–	49	582	2	633
	<u>–</u>	<u>269</u>	<u>3,201</u>	<u>8</u>	<u>3,478</u>
<b>Year ended 31 December 2007</b>					
<i>Executive directors:</i>					
Ms. Zhou	–	122	1,803	3	1,928
Ms. Cai Yueqing (蔡月卿女士)	–	49	721	2	772
Mr. Shi Guicheng (施貴成先生)	–	49	721	2	772
Mr. Ru Xiquan (茹希全先生)	–	49	721	2	772
	<u>–</u>	<u>269</u>	<u>3,966</u>	<u>9</u>	<u>4,244</u>
<b>Year ended 31 December 2008</b>					
<i>Executive directors:</i>					
Ms. Zhou	–	123	1,880	3	2,006
Ms. Cai Yueqing (蔡月卿女士)	–	49	752	3	804
Mr. Shi Guicheng (施貴成先生)	–	49	752	3	804
Mr. Ru Xiquan (茹希全先生)	–	49	752	2	803
	<u>–</u>	<u>270</u>	<u>4,136</u>	<u>11</u>	<u>4,417</u>

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	<b>Fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary performance related bonuses</b>	<b>Pension scheme contributions</b>	<b>Total remuneration</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Six months ended</b>					
<b>30 June 2008</b>					
<b>(Unaudited)</b>					
<i>Executive directors:</i>					
Ms. Zhou	–	61	822	2	885
Ms. Cai Yueqing (蔡月卿女士)	–	25	328	1	354
Mr. Shi Guicheng (施貴成先生)	–	25	328	1	354
Mr. Ru Xiquan (茹希全先生)	–	25	328	1	354
	<u>–</u>	<u>136</u>	<u>1,806</u>	<u>5</u>	<u>1,947</u>
	<u>–</u>	<u>136</u>	<u>1,806</u>	<u>5</u>	<u>1,947</u>
<b>Six months ended</b>					
<b>30 June 2009</b>					
<i>Executive directors:</i>					
Ms. Zhou	–	61	1,633	2	1,696
Ms. Cai Yueqing (蔡月卿女士)	–	25	653	1	679
Mr. Shi Guicheng (施貴成先生)	–	25	653	1	679
Mr. Ru Xiquan (茹希全先生)	–	25	653	1	679
	<u>–</u>	<u>136</u>	<u>3,592</u>	<u>5</u>	<u>3,733</u>
	<u>–</u>	<u>136</u>	<u>3,592</u>	<u>5</u>	<u>3,733</u>

During the Track Record Period, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Except for the year ended 31 December 2008, where Ms. Zhou, Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生) and Mr. Ru Xiquan (茹希全先生) had waived performance bonuses of RMB1,148,000, RMB457,000, RMB457,000 and RMB457,000, respectively, there was no other arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

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### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Track Record Period included four Directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one non-director, highest paid employee during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	49	49	49	25	25
Performance related bonuses	582	721	752	328	653
Retirement benefit contributions	2	2	3	1	1
	<u>633</u>	<u>772</u>	<u>804</u>	<u>354</u>	<u>679</u>

The number of non-director, highest paid employee whose remuneration fell within the following band is as follows:

	Number of employees			Six months ended 30 June	
	Year ended 31 December			2008	2009
	2006	2007	2008	(Unaudited)	
Nil to RMB1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

During the Track Record Period, no remuneration was paid by the Group to any of the employees as an inducement to join or upon joining the Group or as compensation for loss of office.

### 9. 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 are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Track Record Period.

Wuzhou Shenguan is located in Wuzhou, Guangxi in the Western Region of China and is subject to the region’s preferential corporate income tax (“CIT”) rate of 15% as set out in the Circular on Issues Concerning Preferential Tax Policies for the Development of Western Regions (Cai Shui [2001] No. 202).

In accordance with the Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (Zhuxiling [1991] No. 45 Article 8), Foreign Invested Enterprise engages in manufacturing is exempted from CIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax exemption for the subsequent three years. Since Wuzhou Shenguan is engaged in the manufacture of protein products, it is entitled to the CIT holiday.

Pursuant to the Circular on the Implementation of Transitional Preferential Corporate Income Tax Policies (Guo Fa [2007] No. 39), enterprises entitled to CIT holiday of “two-year exemption and three-year half deduction” shall continue to enjoy the preferential tax treatment following the implementation of the new Law of the People’s Republic of China on Corporate Income Tax which came into force on 1 January 2008. The preferential tax policies for the development of western regions which allow a preferential CIT rate of 15% shall continue to apply. Wuzhou Shenguan had successfully obtained approval in 2008 on grandfathering its preferential tax treatment from the State Tax Bureau of Wanxiu District, Wuzhou City.

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Wuzhou Shenguan’s first profit-making year was the year ended 31 December 2005 which was also the first year of its tax holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2005 and 2006 and subject to CIT at a rate of 7.5% for the two years ended 31 December 2007 and 2008 and for the year ending 31 December 2009.

Apart from Wuzhou Shenguan, other companies located in the PRC have not been granted with any preferential tax treatment and were subject to tax at their statutory tax rates of 33% for the years ended 31 December 2006 and 2007, and 25% for the year ended 31 December 2008 and six months ended 30 June 2009.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Group:					
Current tax charge for the year/period					
– PRC	–	–	2,521	–	15,192
Deferred tax ( <i>note 17</i> )	(2,136)	(13,647)	14,291	6,855	(648)
Total tax charge/(credit) for the year/period	(2,136)	(13,647)	16,812	6,855	14,544

A reconciliation of the tax expense applicable to profit before tax using the statutory income tax rate of the jurisdictions in which the Company and its subsidiaries are domiciled to the income tax charge/(credit) at the Group’s effective tax rate for the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	
	RMB’000	RMB’000	RMB’000	RMB’000	
				(Unaudited)	
Profit before tax	86,125	114,989	213,626	92,859	
Tax at the statutory tax rate	28,421	33%	37,946	33%	53,407
Lower tax rate for specific provinces or enacted by local authority	(28,421)	(29,322)	(37,336)	(16,250)	25%
Effect on opening deferred tax of decrease in rate	–	–	616	616	
Effect of higher enacted tax rate used for the recognition of deferred tax	(220)	(701)	(324)	(858)	
Tax incentives ( <i>note (a)</i> )	(1,916)	(21,734)	–	–	
Expenses not deductible for tax	–	164	449	132	
Tax charge/(credit) at the Group’s effective rate	(2,136)	(2.5%)	(13,647)	(11.9%)	16,812
				7.9%	6,855
					7.4%

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	Six months ended 30 June 2009					
	PRC		Hong Kong		Total	
	RMB'000		RMB'000		RMB'000	
Profit/(loss) before tax	176,217		(13,426)		162,791	
Tax at the statutory tax rate	44,054	25%	(2,215)	16.5%	41,839	25.7%
Lower tax rate for specific provinces or enacted by local authority	(29,760)		–		(29,760)	
Effect of higher enacted tax rate used for the recognition of deferred tax	(943)		–		(943)	
Expenses not deductible for tax	12		2,215		2,227	
Effect of withholding tax at 5% on the distributed profits of the Group’s PRC subsidiaries	1,181		–		1,181	
Tax charge at the Group’s effective rate	14,544	8.3%	–	–	14,544	8.9%

*Note:*

- (a) The tax incentives were claimed by receiving Foreign Enterprise Income Tax (“FEIT”) credit in 2006 and 2007 for the purchase of domestically-manufactured equipment. The total amount of FEIT credit claimed was RMB23,650,000. The application of tax credit had been approved by the tax authorities, which had been used to deduct the tax payable for 2007 and 2008.

### 10. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

The dividends paid by the Company’s subsidiary to its then shareholders during the Track Record Period was as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Dividends	–	100,927	97,634	97,634	187,025

Subsequent to 30 June 2009, in September 2009, the Company’s subsidiaries have declared dividends of RMB140.3 million to their then shareholders which will be fully settled before [●].

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

### 11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the preparation of the results of the Group for the Track Record Period on the combined basis as disclosed in note 2.1 above.

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### 12. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings</b> <i>RMB'000</i>	<b>Plant and machinery</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2006, net of accumulated depreciation	30,582	43,667	1,049	1,494	76,792
Additions	346	2,247	861	28,658	32,112
Disposals	(263)	(25)	(27)	–	(315)
Depreciation provided during the year	(1,533)	(4,858)	(220)	–	(6,611)
Transfers	7,418	18,449	–	(25,867)	–
At 31 December 2006 and at 1 January 2007, net of accumulated depreciation	36,550	59,480	1,663	4,285	101,978
Additions	618	3,022	3,304	55,059	62,003
Disposals	(315)	(161)	(14)	–	(490)
Depreciation provided during the year	(1,887)	(6,855)	(385)	–	(9,127)
Transfers	13,105	45,196	–	(58,301)	–
At 31 December 2007 and at 1 January 2008, net of accumulated depreciation	48,071	100,682	4,568	1,043	154,364
Additions	2,844	5,249	1,864	56,059	66,016
Disposals	(157)	(157)	(2)	–	(316)
Depreciation provided during the year	(2,202)	(9,434)	(530)	–	(12,166)
Transfers	16,951	34,144	89	(51,184)	–
At 31 December 2008 and at 1 January 2009, net of accumulated depreciation	65,507	130,484	5,989	5,918	207,898
Additions	1,138	6,260	540	93,164	101,102
Disposals	–	(3)	(5)	–	(8)
Depreciation provided during the period	(1,394)	(6,731)	(340)	–	(8,465)
Transfers	486	50,231	–	(50,717)	–
At 30 June 2009, net of accumulated depreciation	<u>65,737</u>	<u>180,241</u>	<u>6,184</u>	<u>48,365</u>	<u>300,527</u>
At 31 December 2006:					
Cost	47,070	85,237	2,782	4,285	139,374
Accumulated depreciation	<u>(10,520)</u>	<u>(25,757)</u>	<u>(1,119)</u>	<u>–</u>	<u>(37,396)</u>
Net carrying amount	<u>36,550</u>	<u>59,480</u>	<u>1,663</u>	<u>4,285</u>	<u>101,978</u>
At 31 December 2007:					
Cost	60,444	132,405	5,899	1,043	199,791
Accumulated depreciation	<u>(12,373)</u>	<u>(31,723)</u>	<u>(1,331)</u>	<u>–</u>	<u>(45,427)</u>
Net carrying amount	<u>48,071</u>	<u>100,682</u>	<u>4,568</u>	<u>1,043</u>	<u>154,364</u>
At 31 December 2008:					
Cost	80,030	171,603	7,783	5,918	265,334
Accumulated depreciation	<u>(14,523)</u>	<u>(41,119)</u>	<u>(1,794)</u>	<u>–</u>	<u>(57,436)</u>
Net carrying amount	<u>65,507</u>	<u>130,484</u>	<u>5,989</u>	<u>5,918</u>	<u>207,898</u>
At 30 June 2009:					
Cost	81,654	228,021	8,182	48,365	366,222
Accumulated depreciation	<u>(15,917)</u>	<u>(47,780)</u>	<u>(1,998)</u>	<u>–</u>	<u>(65,695)</u>
Net carrying amount	<u>65,737</u>	<u>180,241</u>	<u>6,184</u>	<u>48,365</u>	<u>300,527</u>

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At 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group’s buildings and plant and machinery with net book values of RMB50,418,000, RMB67,137,000, RMB62,229,000 and RMB89,233,000, respectively, were pledged to secure bank loans granted to the Group (note 27).

### 13. INVESTMENT PROPERTY

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period, net of accumulated depreciation	144	140	136	133
Depreciation provided during the year/period	(4)	(4)	(3)	(2)
At end of year/period, net of accumulated depreciation	140	136	133	131
At end of year/period				
Cost	150	150	150	150
Accumulated depreciation	(10)	(14)	(17)	(19)
Net carrying amount	140	136	133	131

The Group’s investment property is situated in the PRC and is held under a medium term lease term.

The Group’s investment property was valued at 31 August 2009 by Debenham Tie Leung Limited, independent professionally qualified valuers at RMB240,000, by reference to market evidence of transaction prices for similar properties. The investment property is leased to a third party under an operating lease, further summary details of which are included in note 33(a) to this report.

### 14. PREPAID LAND LEASE PAYMENTS

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of year/period	8,577	8,525	8,299	28,076
Additions during the year/period	143	–	20,156	5,795
Recognized during the year/period	(195)	(226)	(379)	(580)
Carrying amount at end of year/period	8,525	8,299	28,076	33,291
Current portion included in prepayments, deposits and other receivables	(194)	(194)	(597)	(710)
Non-current portion	8,331	8,105	27,479	32,581

The leasehold land is held under medium term leases and is situated in the PRC.

At 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group’s prepaid land lease payments with carrying amounts of RMB4,267,000, RMB8,299,000, RMB8,105,000 and RMB19,469,000, respectively, were pledged to secure bank loans granted to the Group (note 27).

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### 15. PATENT

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period, net of accumulated amortization	5,436	4,578	3,720	2,861
Amortization provided during the year/period	(858)	(858)	(859)	(429)
At end of year/period, net of accumulated amortization	4,578	3,720	2,861	2,432
At end of year/period				
Cost	6,867	6,867	6,867	6,867
Accumulated amortization	(2,289)	(3,147)	(4,006)	(4,435)
Net carrying amount	4,578	3,720	2,861	2,432

### 16. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments consist of investments in financial products which were designated as available-for-sale financial assets. They were not stated at fair value but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market and, in the opinion of the Directors, the fair value estimate cannot be measured reliably.

The available-for-sale investment as at 30 June 2009 was fully redeemed above cost on 10 July 2009.

### 17. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Track Record Period are as follows:

#### Deferred tax assets

	Impairment provision against trade receivables RMB'000	FEIT credit RMB'000	Deferred government grants RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Accrued salary RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2006	886	-	-	530	-	-	1,416
Deferred tax credited to the combined statement of comprehensive income (note 9)	89	1,916	-	131	-	-	2,136
At 31 December 2006 and 1 January 2007	975	1,916	-	661	-	-	3,552
Deferred tax credited to the combined statement of comprehensive income (note 9)	427	12,741	-	479	-	-	13,647
At 31 December 2007 and 1 January 2008	1,402	14,657	-	1,140	-	-	17,199
Deferred tax credited/(charged) to the combined statement of comprehensive income (note 9)	(94)	(14,657)	-	(59)	-	519	(14,291)
At 31 December 2008 and 1 January 2009	1,308	-	-	1,081	-	519	2,908
Deferred tax credited/(charged) to the combined statement of comprehensive income (note 9)	78	-	1,000	45	1,225	(519)	1,829
At 30 June 2009	1,386	-	1,000	1,126	1,225	-	4,737



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### Deferred tax liabilities

	<b>Withholding tax RMB’000</b>
At 1 January 2006, 31 December 2006, 2007 and 2008, and 1 January 2009	–
Deferred tax charged to the combined statement of comprehensive income ( <i>note 9</i> )	1,181
At 30 June 2009	1,181

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

### 18. LONG TERM PREPAYMENTS

Included in the Group’s long term prepayments as at 31 December 2006 and 2007 was a prepayment of RMB17,951,000 to Guangxi Wuzhou Sanjian Medicine Co., Ltd. (“Wuzhou Sanjian”) for the acquisition of certain assets including land and building, plants and machinery, construction in progress, trademarks and inventories from Wuzhou Sanjian. The acquisition was terminated on 31 August 2008 and the prepayment was fully refunded in September 2008.

### 19. INVENTORIES

	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Raw materials	11,627	18,928	22,305	27,338
Work in progress	1,126	2,951	2,040	2,653
Finished goods	645	7,232	2,472	9,825
	<u>13,398</u>	<u>29,111</u>	<u>26,817</u>	<u>39,816</u>

### 20. TRADE AND BILLS RECEIVABLES

	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade receivables	18,036	28,793	32,364	41,260
Bills receivable	–	591	–	–
Due from related parties	1,547	75	595	1,592
Less: Impairment	(2,953)	(4,300)	(5,567)	(5,567)
	<u>16,630</u>	<u>25,159</u>	<u>27,392</u>	<u>37,285</u>

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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. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group has provided impairment loss on trade receivables based on past experience of collecting payments. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at each of the statement of financial position dates during the Track Record Period, based on the invoice date and net of provision, is as follows:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	12,840	21,040	24,382	33,313
3 to 4 months	385	761	177	381
Over 4 months	1,858	2,692	2,238	1,999
	<u>15,083</u>	<u>24,493</u>	<u>26,797</u>	<u>35,693</u>

The movements in provision for impairment of trade receivables are as follows:

		At 31 December			At 30 June
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
	<i>Note</i>				
At beginning of year/period		2,683	2,953	4,300	5,567
Impairment loss recognized	6	270	1,398	1,267	–
Amounts written off as uncollectible		–	(51)	–	–
At end of year/period		<u>2,953</u>	<u>4,300</u>	<u>5,567</u>	<u>5,567</u>

Included in the above provision for impairment of trade receivables were provisions for individually impaired trade receivables of RMB2,953,000, RMB4,300,000, RMB5,567,000 and RMB5,567,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively with the same amounts as gross carrying amounts. The individually impaired trade receivables relate to customers that were in financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	11,125	16,873	17,609	29,278
Less than 1 month past due	660	2,868	4,657	2,564
1 to 2 months past due	1,311	1,601	2,293	1,179
Over 2 months past due	1,987	3,151	2,238	2,672
	<u>15,083</u>	<u>24,493</u>	<u>26,797</u>	<u>35,693</u>

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Due from related parties

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
C.T. Company	671	–	–	823
Exceltech Enterprise (“Exceltech”)	876	75	595	769
	<u>1,547</u>	<u>75</u>	<u>595</u>	<u>1,592</u>

The amounts due from C.T. Company and Exceltech, then shareholders of Wuzhou Shenguan before Reorganization were unsecured, non-interest-bearing and have a repayment term of 60 days, which was on term similar to that offered to other major customers.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

### 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	2,768	867	9,873	8,965
Deposits and other receivables	2,550	4,754	1,992	1,778
	<u>5,318</u>	<u>5,621</u>	<u>11,865</u>	<u>10,743</u>

None of the above is either past due or impaired. Financial assets included in the above balance relate to receivables for which there were no recent history of default.

Included in the Group’s deposits and other receivables is an amount due from a related party, whose particulars are disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance as follows:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from Wuzhou Sanjian ( <i>Note</i> )	<u>1,652</u>	<u>4,022</u>	<u>–</u>	<u>–</u>
Maximum amount outstanding during the year/period	<u>1,652</u>	<u>4,879</u>	<u>7,119</u>	<u>–</u>

*Note:* Wuzhou Sanjian is controlled by the spouse of Ms. Zhou, a Director. The balance is unsecured, interest-free and has no fixed terms of repayment.

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### 22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The equity investments as at 31 December 2007 were equity investments listed on the Shanghai Stock Exchange and classified as held for trading, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

### 23. CASH AND BANK BALANCES

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	46,407	57,095	127,035	292,478
Time deposits	12,300	–	1,500	8,500
	<u>58,707</u>	<u>57,095</u>	<u>128,535</u>	<u>300,978</u>

At 31 December 2006, 2007 and 2008 and 30 June 2009, the Group’s cash and bank balances denominated in RMB were RMB58,707,000, RMB57,095,000, RMB128,467,000 and RMB292,903,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for periods of three months, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks in the PRC with no recent history of default.

### 24. TRADE PAYABLES

An aged analysis of the trade payables as at each of the statement of financial position date during the Track Record Period is as follows:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	2,748	5,478	12,760	10,983
1 to 2 months	851	1,077	2,829	6,087
2 to 3 months	84	426	639	1,469
Over 3 months	<u>542</u>	<u>2,100</u>	<u>1,157</u>	<u>2,281</u>
	<u>4,225</u>	<u>9,081</u>	<u>17,385</u>	<u>20,820</u>

The trade payables are non-interest-bearing and are normally settled in 60-day term.

Included in the Group’s trade payables as at 31 December 2006, 2007 and 2008 and 30 June 2009 were a trade payable to Wuzhou Junye Trademark Printing Material Co., Ltd. (“Wuzhou Junye Printing Material”) amounting to RMB88,000, RMB177,000, RMB203,000 and RMB212,000, respectively. Wuzhou Junye Printing Material is controlled by the spouse of Ms. Zhou, a Director. The balance is unsecured, interest-free and is repayable within 20 days after receipt of goods.

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### 25. OTHER PAYABLES AND ACCRUALS

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	4,456	2,377	13,553	3,864
Accruals	9,406	12,192	17,224	21,823
Other payables	6,325	19,355	19,716	17,101
Due to related parties	–	187	484	92,915
	<u>20,187</u>	<u>34,111</u>	<u>50,977</u>	<u>135,703</u>

Other payables are non-trade, unsecured and non-interest-bearing and have terms of one to nine months.

Due to related parties:

	Notes	At 31 December			At 30 June
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
C.T. Company	(a), (d)	–	187	234	3,382
Glories Site Limited (“Glories Site”)	(b)	–	–	–	53,503
Rich Top Future Limited (“Rich Top Future”)	(b)	–	–	–	28,238
Shenguan Biology Science & Technology Investment Company Limited (“Hong Kong Shenguan”)	(c)	–	–	–	909
Ms. Zhou	(d)	–	–	–	1,409
Exceltech	(d)	–	–	–	5,159
Wuzhou Sanjian	(e)	–	–	250	315
		<u>–</u>	<u>187</u>	<u>484</u>	<u>92,915</u>

Notes:

- (a) The amount due to C.T. Company, a then shareholder of Wuzhou Shenguan before Reorganization, is unsecured and interest-free. The balances as at 31 December 2007 and 2008 are repayable in accordance with the terms outlined in the commission agreement.
- (b) As part of the Reorganization, Glories Site and Rich Top Future, shareholders of the Company, had loaned RMB53.5 million and RMB28.2 million to Forever Gather and Excel Gather, respectively to acquire 97% equity interests in Wuzhou Shenguan. The balances are unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding loan balances as at 30 June 2009 will be capitalized before the [●] of the Company.
- (c) The amount due to Hong Kong Shenguan, a then shareholder of Wuzhou Shenguan before Reorganization, represented expenses paid by Hong Kong Shenguan on the Group’s behalf. The balance is unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding balance as at 30 June 2009 will be settled by cash and by capitalization on or before the [●] of the Company.

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- (d) As at 30 June 2009, the amounts due to Ms. Zhou, a Director and C.T. Company and Exceltech, represented expenses paid by them on the Group’s behalf and advances from them to the Group as operating funds in Hong Kong. The balances are unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding balances as at 30 June 2009 will be settled by cash and by capitalization on or before the [●] of the Company.
- (e) The balance due to Wuzhou Sanjian, a company controlled by the spouse of Ms. Zhou, a Director is unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding balance as at 30 June 2009 will be settled before the [●] of the Company.

### 26. DIVIDEND PAYABLE

The Directors confirm that the outstanding dividend payable as at 30 June 2009 will be settled before the [●] of the Company.

### 27. INTEREST-BEARING BANK BORROWINGS

	At 31 December								At 30 June			
	Effective interest		2006	Effective interest		2007	Effective interest		2008	Effective interest		2009
	rate	Maturity		rate	Maturity		rate	Maturity		rate	Maturity	
	(%)		RMB’000	(%)		RMB’000	(%)		RMB’000	(%)		RMB’000
<b>Current</b>												
Bank loans:												
– secured (note (a))	6.12	2007	13,000	7.8	2008	2,052			–	5.76	2009-2010	20,000
– unsecured			–	6.57-8.22	2008	29,000	5.58-5.84	2009	20,000	4.78-5.31	2009-2010	130,000
Current portion of long term bank loans:												
– secured (note (b))			–			–	6.34-8.51	2009	18,000	5.94	2010	13,000
– unsecured			–	7.56	2008	5,000	7.02	2009	10,000			–
			<u>13,000</u>			<u>36,052</u>			<u>48,000</u>			<u>163,000</u>
<b>Non-current</b>												
Bank loans:												
– secured (note (b))	6.73-7.13	2009	18,000	6.93-8.42	2009-2011	51,000	7.74-8.32	2010-2011	33,000	5.40-5.76	2010-2011	32,000
– unsecured			–	7.56	2009	15,000	7.02	2010	20,000	5.40-5.76	2011-2014	130,000
			<u>18,000</u>			<u>66,000</u>			<u>53,000</u>			<u>162,000</u>
			<u>31,000</u>			<u>102,052</u>			<u>101,000</u>			<u>325,000</u>

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	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Analyzed into:				
Bank loans repayable:				
Within one year	13,000	36,052	48,000	163,000
In the second year	–	33,000	33,000	30,000
In the third to fifth years, inclusive	18,000	33,000	20,000	132,000
	<u>31,000</u>	<u>102,052</u>	<u>101,000</u>	<u>325,000</u>

### Notes:

- (a) The Group’s short term loans as at 31 December 2006 were secured by the Group’s prepaid land, buildings, and plant and machinery situated in the PRC, which had an aggregate carrying value of RMB21,409,000. The short term loan as at 31 December 2007 was secured by the Group’s letter of credit with a carrying value of US\$284,000 (approximately RMB2,160,000). The Group’s short term loan as at 30 June 2009 was secured by a prepaid land located in the PRC with a carrying value of RMB12,834,000.
- (b) The Group’s long term loans as at 31 December 2006, 2007 and 2008 and 30 June 2009 were secured by the Group’s prepaid land, buildings and plant and machinery situated in the PRC, which had aggregate carrying values of RMB33,276,000, RMB75,436,000, RMB70,334,000 and RMB95,868,000, respectively.
- (c) All borrowings are denominated in RMB.

The carrying amounts of the Group’s current and floating rate borrowings approximate to their fair values. The carrying amounts and fair values of the Group’s fixed rate borrowings are as follows:

	Carrying amounts				Fair values			
	At 31 December			At 30 June	At 31 December			At 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fixed rate bank loans	13,000	12,052	–	90,000	12,831	12,273	–	89,805

## 28. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on 24 February 2009 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each, one of which was allotted and issued nil paid to the subscriber on the same date. Further details on the Company’s share capital are set out Appendix VI to this document.

For the purpose of this report, the issued capital of the Group as at 31 December 2006, 2007 and 2008 represented the aggregate amount of paid-in capital of the companies comprising the Group attributable to equity holders of the Company at the respective dates, after elimination of investments in subsidiaries. The issued capital of the Group as at 30 June 2009 represented the issued capital of the Company.

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The movements in the issued capital of the Group are as follows:

		Attributable to equity holders of the Company RMB'000	Attributable to non-controlling interests RMB'000	Paid-in capital RMB'000
	Notes			
At 1 January 2006		12,069	140	12,209
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders		(699)	699	–
Capital contribution	(i)	16,834	957	17,791
At 31 December 2006 and 2007 and 1 January 2008		28,204	1,796	30,000
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders		(2,396)	2,396	–
Capital contribution	(ii)	68	–	68
Capitalization of reserves	(iii)	37,249	6,051	43,300
At 31 December 2008 and 1 January 2009		63,125	10,243	73,368
Acquisition of non-controlling interests in Wuzhou Shenguan	(iv)	10,152	(10,152)	–
Capitalization of reserves	(v)	9,461	1,539	11,000
Elimination of registered capital in connection with the Reorganization	(vi)	(82,738)	(1,630)	(84,368)
At 30 June 2009		–	–	–

### Notes:

- (i) Pursuant to the memorandum of association of Wuzhou Shenguan, additional capital in the form of cash of RMB10,656,000 and RMB7,135,000 were injected by shareholders on 17 July 2006 and 1 September 2006, respectively.
- (ii) On 21 April 2008, Shenguan Industrial was incorporated in the BVI with limited liability with an authorized capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 29 August 2008, 10,000 shares in Shenguan Industrial were allotted and issued to Shengguan Limited, a fellow subsidiary of the Company, at par.
- (iii) On 27 June 2008, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB30,000,000 to RMB73,300,000 by the conversion of the capital reserves of RMB35,912,000 and the reserve funds of RMB7,388,000 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited (“Wuzhou Xiansheng”) contributed RMB19,394,000, RMB8,751,000, RMB5,759,000 and RMB9,396,000, respectively, by the capitalization of their respective share in the capital reserves and reserve funds of Wuzhou Shenguan. Their respective interests in Wuzhou Shenguan remained unchanged.
- (iv) Pursuant to a share transfer agreement dated 26 May 2009, Wuzhou Xiansheng (which is 64.4% held by non-controlling shareholders) transferred its 18.7% equity interest in Wuzhou Shenguan to Hong Kong Shenguan at a consideration of RMB15,764,000.



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- (v) On 1 June 2009, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB73,300,000 to RMB84,300,000 by the conversion of the capital reserves of RMB752,000 and the reserve funds of RMB10,248,000 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng contributed RMB4,927,000, RMB2,223,000, RMB1,463,000 and RMB2,387,000, respectively, by the capitalization of their respective share in the capital reserves and reserve funds of Wuzhou Shenguan in proportion to their respective capital contributions to Wuzhou Shenguan. Their respective interests in Wuzhou Shenguan remained unchanged.
- (vi) On 24 February 2009, the Company was incorporated in the Cayman Islands with an authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, one of which was allotted and issued at nil paid to the subscriber. On the same date, the nil paid share was transferred from the subscriber to Ms. Zhou.

### 29. RESERVES

#### (a) Group

The amounts of the Group’s reserves and the movements therein for the Track Record Period are presented in the combined statement of changes in equity on page I-8 of this report.

#### (b) Reserve funds

In accordance with the Law of the PRC for Enterprise with Foreign Investments and the articles of association of subsidiaries of the Group established in the PRC, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve funds before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve funds should not be less than 10% of the net profits. When the balance of the reserve funds reaches 50% of the paid-up capital, no further appropriations are required to be made. Upon approval obtained from the board of directors, the reserve funds can be used to offset accumulated deficits or to increase the registered capital.

#### (c) Other reserve

Other reserve represents the difference between the amounts of consideration and carrying values of non-controlling interests arising from the acquisition of the interests from and disposal of interests to non-controlling shareholders.

#### (d) Merger reserve

Merger reserve represents the difference between the Company’s share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company’s cost of acquisition of the subsidiaries under common control upon the Reorganization as detailed in note 2.1.

#### (e) Distribution to shareholders

Pursuant to the share transfer agreements dated 27 May 2009, Exceltech, C.T. Company and Hong Kong Shenguan transferred their respective equity interests of 20.21%, 13.30% and 63.49% in Wuzhou Shenguan to Excel Gather and Forever Gather at a total consideration of RMB81,771,000.

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### 30. DE-REGISTRATION OF A SUBSIDIARY

Wuzhou Huaqiang, which was dormant, was de-registered on 31 December 2006.

	<i>Note</i>	<i>RMB'000</i>
Net assets of Wuzhou Huaqiang:		
Other receivables		69
Non-controlling interests		(17)
		<hr/>
Loss on de-registration of a subsidiary	6	52
		<hr/>

No cash movement was resulted from the de-registration of Wuzhou Huaqiang.

### 31. CONTINGENT LIABILITIES

At each of the statement of financial position dates of the Track Record Period, the Group had no significant contingent liabilities.

### 32. PLEDGE OF ASSETS

Details of the Group’s bank loans which are secured by the assets of the Group are included in notes 12, 14 and 27 to this report.

### 33. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its property under an operating lease arrangement, with the lease negotiated for one year.

At each of the statement of financial position dates during the Track Record Period, the Group had total future minimum lease receivables under the non-cancellable operating lease with its tenant falling due as follows:

	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	–	–	6	–
	<hr/>	<hr/>	<hr/>	<hr/>

#### (b) As lessee

The Group leases certain of its retail outlets and its office premise under operating lease arrangements. Leases are negotiated for terms ranging from one to three years.

At each of the statement of financial position dates during the Track Record Period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	16	26	44	766
In the second to fifth years, inclusive	8	–	19	10
	<hr/>	<hr/>	<hr/>	<hr/>
	24	26	63	776
	<hr/>	<hr/>	<hr/>	<hr/>

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### 34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at each of the statement of financial position dates of the Track Record Period:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Buildings	2,353	1,505	24,019	18,931
Plant and machinery	8,446	6,499	22,189	44,455
Authorized, but not contracted for:				
Production facilities	—	—	—	368,670
	10,799	8,004	46,208	432,056

### 35. RELATED PARTY DISCLOSURES

- (a) In addition to note 18 to this report, the Group had the following transactions with related parties. In the opinion of the Directors except for the transactions with Wuzhou Sanjian which will be discontinued after [●], all of the remaining transactions were continuing transactions. These transactions were based on mutual negotiations and agreements between the Group and the related parties.

Name of related parties	Nature of transactions	Notes	Year ended 31 December			Six months ended 30 June	
			2006	2007	2008	2008	2009
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)							
<b>Then shareholders of Wuzhou Shenguan before Reorganization</b>							
C.T. Company	Sales of products	(i)	2,630	5,339	887	186	1,057
	Commission paid	(ii)	112	182	293	121	275
Exceltech	Sales of products	(i)	2,584	4,439	3,104	1,850	781
<b>Related companies</b>							
Wuzhou Sanjian	Sales of products	(i)	1	6	—	—	—
	Sales of materials	(iii)	107	96	412	243	243
	Purchases of materials	(iv)	7	648	795	230	355
	Rental of boiler	(v)	105	110	130	70	20
Wuzhou Junye Printing Material	Purchases of packing materials	(iv)	2,250	3,267	6,245	2,569	5,184

Notes:

- (i) The sales were made according to the prices and conditions offered to the major customers of the Group.

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- (ii) The commission was calculated based on 1.9% to 2.3% of the transaction value on the sales of products to those overseas customers arranged by C.T. Company.
- (iii) The sales of materials were carried out at cost.
- (iv) The purchases of raw materials and packing materials were carried out at market prices.
- (v) Terms on the rental of boiler from the related company were mutually agreed between the parties.

**(b) Balances with related parties**

Balances with related parties are detailed in notes 18, 20, 21, 24 and 25 to this report.

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

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	318	319	320	160	361
Performance related bonuses	3,783	4,687	4,888	2,135	4,247
Retirement benefit contributions	10	10	14	6	11
Total compensation paid to key management personnel	4,111	5,016	5,222	2,301	4,619

Further details of directors’ emoluments are included in note 7 to this report.

### 36. FINANCIAL INSTRUMENTS BY CATEGORY

Other than unlisted equity investments being classified as available-for-sale investments and equity investments at fair value through profit or loss, as disclosed in notes 16 and 22 to this report, all financial assets and liabilities of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 are loans and receivables, and financial liabilities stated at amortized cost, respectively.

### 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise bank loans, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarized below.

#### Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

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The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s long term debt obligations. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2006, 2007 and 2008 and 30 June 2009, it is estimated that if interest rates at those dates had been 100 basis points higher/lower, with all other variables held constant, the Group’s profit before tax for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 would have been lower/higher (through the impact on floating rate borrowings) by the amounts of approximately RMB298,000, RMB728,000, RMB963,000 and RMB934,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at each of the statement of financial position dates.

### Foreign currency risk

Foreign currency risk means the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

The Group’s businesses are mainly located in the PRC and are mainly transacted and settled in RMB. Accordingly, the Directors considered that the Group’s foreign currency exchange risk is insignificant. Certain sales and purchases are settled in other currencies including United States dollars. The fluctuation of the exchange rates of such currencies against RMB will affect the Group’s results of operations.

All of the Group’s turnover and substantially all of the Group’s operating expenses are denominated in RMB, which is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currencies may restrict the ability of the Group’s PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other amounts to the Group.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where RMB is to be converted into foreign currencies and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

Currently, the Group’s PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to the shareholders’ of the PRC subsidiaries, with the prior approval of the State Administration for Foreign Exchange. The Group’s PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange, this could affect the Group’s subsidiaries’ ability to obtain the required foreign currency amounts through debt or equity financing, including by means of loans or capital contributions from the Company.

There are limited hedging instruments available in the PRC to reduce the Group’s exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions in an effort to reduce the Group’s exposure to foreign currency exchange risks. While the Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group’s exposure successfully, or at all.

A reasonably possible change of 5% in the exchange rate between United States dollars and RMB would have no material impact on the Group’s profit or loss during the Track Record Period and there would be no impact on the Group’s equity.

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### Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant.

The credit risk of the Group’s other financial assets, which mainly comprise cash and bank balances, available-for-sale financial assets, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the Group’s trade receivables are widely dispersed in different customers.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade receivables are disclosed in note 20.

### Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate finance to repay the debt related to financial instruments. Liquidity risk may arise from the inability to dispose of financial assets promptly, counterparty being unable to repay its contracted debt obligations, the repayment of debts before the maturity dates of debt obligations, or the inability to generate the expected cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows. The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In the opinion of the Directors, most of the borrowings that mature within one year are able to renew and the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

The maturity profile of the Group’s financial liabilities as at each of the statement of financial position dates during the Track Record Period, based on the contractual undiscounted payments, was as follows:

	At 31 December 2006			
	Within one year or on demand <i>RMB’000</i>	In the second year <i>RMB’000</i>	In the third to fifth years, inclusive <i>RMB’000</i>	Total <i>RMB’000</i>
Interest-bearing bank borrowings	15,071	1,480	18,576	35,127
Trade payables	4,225	–	–	4,225
Other payables and accruals	20,187	–	–	20,187
Dividend payable	14,302	–	–	14,302
	<u>53,785</u>	<u>1,480</u>	<u>18,576</u>	<u>73,841</u>

## APPENDIX I

## ACCOUNTANTS’ REPORT

### At 31 December 2007

	<b>Within one year or on demand <i>RMB'000</i></b>	<b>In the second year <i>RMB'000</i></b>	<b>In the third to fifth years, inclusive <i>RMB'000</i></b>	<b>Total <i>RMB'000</i></b>
Interest-bearing bank borrowings	42,533	35,944	34,631	113,108
Trade payables	9,081	–	–	9,081
Other payables and accruals	34,111	–	–	34,111
	<u>85,725</u>	<u>35,944</u>	<u>34,631</u>	<u>156,300</u>

### At 31 December 2008

	<b>Within one year or on demand <i>RMB'000</i></b>	<b>In the second year <i>RMB'000</i></b>	<b>In the third to fifth years, inclusive <i>RMB'000</i></b>	<b>Total <i>RMB'000</i></b>
Interest-bearing bank borrowings	53,660	34,911	20,016	108,587
Trade payables	17,385	–	–	17,385
Other payables and accruals	50,977	–	–	50,977
	<u>122,022</u>	<u>34,911</u>	<u>20,016</u>	<u>176,949</u>

### At 30 June 2009

	<b>Within one year or on demand <i>RMB'000</i></b>	<b>In the second year <i>RMB'000</i></b>	<b>In the third to fifth years, inclusive <i>RMB'000</i></b>	<b>Total <i>RMB'000</i></b>
Interest-bearing bank borrowings	178,202	38,431	142,328	358,961
Trade payables	20,820	–	–	20,820
Other payables and accruals	135,703	–	–	135,703
Dividend payable	176,570	–	–	176,570
	<u>511,295</u>	<u>38,431</u>	<u>142,328</u>	<u>692,054</u>

### Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern, and to maintain healthy capital ratios in order to support its business and maximise shareholders’ value so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

## APPENDIX I

## ACCOUNTANTS’ REPORT

The Group monitors capital using a gearing ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total interest-bearing bank borrowings, trade payables, and other payables and accruals (as shown in the combined statement of financial position) less cash and bank balances. Adjusted capital comprises all components of equity. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios as at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	31,000	102,052	101,000	325,000
Trade payables	4,225	9,081	17,385	20,820
Other payables and accruals	20,187	34,111	50,977	135,703
Less: Cash and bank balances	(58,707)	(57,095)	(128,535)	(300,978)
Net debt	(3,295)	88,149	40,827	180,545
Adjusted capital	163,738	191,447	290,695	170,177
Gearing ratio	(2%)	46%	14%	106%

### Fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of the Group’s long term borrowings approximate to their fair values based on prevailing borrowing rates available for loans with similar terms and maturities at each of the statement of financial position dates.

The carrying amounts of all other financial instruments approximate to their fair values due to the short term to maturity.



## APPENDIX I

## ACCOUNTANTS’ REPORT

### III. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statements of financial position of the Company as at 31 December 2006, 2007 and 2008 are not presented as the Company was incorporated on 24 February 2009. The Company has not carried out any business other than investment holding since the date of its incorporation.

	<b>At 30 June 2009 RMB’000</b>
<b>LIABILITIES</b>	
Amounts due to subsidiaries	5,750
Amount due to Hong Kong Shenguan	900
Accruals	6,222
	<hr/>
Total liabilities	12,872
	<hr/>
Net liabilities	(12,872)
	<hr/> <hr/>
<b>EQUITY</b>	
Issued capital	–
Translation reserve	1
Accumulated losses	(12,873)
	<hr/>
Total equity	(12,872)
	<hr/> <hr/>

### IV. SUBSEQUENT EVENTS

The companies now comprising the Group underwent and completed a Reorganization on 18 September 2009. Further details of the Reorganization are set out in the paragraph headed “Corporate Reorganization” in Appendix VII to this document. As a result of the Reorganization, the Company became the holding company of the Group.

### V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 30 June 2009.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

## **APPENDIX II**

## **UNAUDITED PRO FORMA FINANCIAL INFORMATION**

[●]

## APPENDIX III

## PROFIT FORECAST

*The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2009 is set out in the section headed “Financial Information – Profit Forecast for the year ending 31 December 2009” in this document.*

### (A) BASES

The Directors have prepared the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2009 based on the audited combined results of the Group for the six months ended 30 June 2009 and a forecast of the combined results of the Group for the remaining six months ending 31 December 2009.

The profit forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the Accountants’ Report, the text of which is set out in Appendix I to this document.

### (B) PRINCIPAL ASSUMPTIONS

Principal assumptions adopted by the Directors in the preparation of the profit forecast are as follows:

- a. there will be no significant changes in the Group’s structure;
- b. there will be no material changes in existing government policies, political, legal, regulatory, financial and economic conditions in the PRC;
- c. there will be no material changes in foreign currency exchange rates of Renminbi from those currently prevailing as at the Latest Practicable Date;
- d. there will be no material changes in the bases or rates of taxation applicable to the Group in the respective jurisdictions in which we operate;
- e. there will be no significant fluctuations in the inflation rate and interest rates of bank loans and deposits from those currently prevailing;
- f. the Directors do not expect any extraordinary items to occur during the forecast period; and
- g. the Group’s business and operation will not be materially and adversely affected by factors that are beyond its control (including those risk factors set out in the section headed “Risk Factors” in this document).

**APPENDIX III**

**PROFIT FORECAST**

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**APPENDIX III**

**PROFIT FORECAST**

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## APPENDIX IV

## PROPERTY VALUATION

*The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this document received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of market value of the property interests in the PRC as at 31 August 2009.*



16th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

[●] 2009

The Directors  
Shenguan Holdings (Group) Limited  
29 Fudian Shang Chong  
Xijiang Fourth Road  
Wuzhou  
Guangxi Zhuangzu Autonomous Region  
The PRC

Dear Sirs,

### Instructions, Purpose and Date of Valuation

In accordance with your instructions for us to value the properties in which Shenguan Holdings (Group) Limited (神冠控股(集團)有限公司) (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) have interests in the PRC (the “PRC”) (as more particularly described in the attached valuation certificates), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such properties as at 31 August 2009.

### Definition of Market Value

Our valuation of the properties represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

### Valuation Basis And Assumption

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In valuing the properties, we have complied with the requirements set out in [●] issued by the Hong Kong Institute of Surveyors.

## **APPENDIX IV**

## **PROPERTY VALUATION**

In the course of our valuation of the properties in the PRC, we have assumed that the transferable land use rights of the properties for their respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have relied on the information regarding the title to each of the properties and the interests of the Group in the properties. In valuing the properties, we have assumed that the Group has an enforceable title to each of the properties and has free and uninterrupted right to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group and the advice provided by Commerce & Finance Law Offices, are set out in the notes in the respective valuation certificate.

### **Method of Valuation**

In valuing Property Nos. 1 and 3 in Group I, which are currently held by the Group for owner occupation in the PRC, we have adopted the Depreciated Replacement Cost (“DRC”) Approach in valuing the property interests. The DRC Approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence. For the land portion, we have made reference to comparable sales evidence as available in the market.

In valuing Property No. 2 and 4 in Group I which are held by the Group for owner occupation in the PRC, we have valued the property interests by direct comparison method by making reference to comparable sales evidence as available in the relevant market.

The property in Group II and III which are leased to the Group in the PRC and Hong Kong have no commercial value mainly due to the prohibitions against assignment and subletting or otherwise due to the lack of substantial profit rents.

### **Source of Information**

We have been provided by the Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and its legal advisers, Commerce & Finance Law Offices, in respect of the title to the properties in the PRC. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, particulars of occupancy, development schemes, construction costs, site and floor areas, interest attributable to the Group and all other relevant matters.

### **Site Inspection**

We have inspected the exterior and, wherever possible, the interior of each of the properties. However, we have not carried out investigations on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these

## APPENDIX IV

## PROPERTY VALUATION

aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

### Currency

Unless otherwise stated, all money amounts indicated herein are in Hong Kong dollars for the property in Hong Kong and Renminbi for the properties in the PRC.

We enclose herewith a summary of our valuations and our valuation certificates.

Yours faithfully,  
for and on behalf of  
**DTZ Debenham Tie Leung Limited**  
**Andrew K.F. Chan**  
*Registered Professional Surveyor (GP)*  
*Registered China Real Estate Appraiser*  
*MSc., M.H.K.I.S., M.R.I.C.S.*  
*Director*

*Note:* Mr. Andrew Chan is a Registered Professional Surveyor who has over 22 years' of experience in the valuation of properties in Hong Kong, Macau and the PRC.





## APPENDIX IV

## PROPERTY VALUATION

Property interest	Capital value in existing state as at 31 August 2009 <i>RMB</i>	Attributable interest to the Group %	Capital value in existing state as at 31 August 2009 attributable to the Group <i>RMB</i>
<b>Group II – Property Interests leased by the Group in the PRC</b>			
5. Shop unit No. 1, 1/F, No. 45 Dadong Xia Road, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC			No commercial value
6. Shop unit No. 5, Anhu Lane Market, Dong Zhong Road, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC			No commercial value
7. Shop unit No. 16, Lianhuju. Shengtong Lane, Xinxing First Road, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC			No commercial value
Sub-total :			<u>No commercial value</u>
<b>Group III – Property Interests leased by the Group in Hong Kong</b>			
8. Unit 2902, Sina Plaza, Causeway Bay, Hong Kong			No commercial value
Sub-total:			<u>No commercial value</u>
Grand-total:	<u>99,040,000</u>		<u>96,068,800</u>

## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group I – Property interest held by the Group for owner occupation or investment in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009
1.	Industrial Complex, Fudian Shang Chong, Xijiang 4th Road, Wanxiu District, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC	The property comprises several industrial properties erected on 6 plots of industrial land with a total site area of approximately 99,206.48 sq.m. (1,067,859 sq.ft.). The buildings and structures were completed between 1983 and 1997.	The property is currently owner-occupied by the Group for industrial and ancillary facilities uses.	RMB50,000,000 (97% interest attributable to the Group: RMB48,500,000)
	廣西壯族自治區 梧州市萬秀區 西江四路扶典上沖 6宗工業用地及上蓋之 工業物業	According to the Group, The property has a total gross floor area of 35,145.59 sq.m. (378,307 sq.ft.) with Building Ownership Certificates.  Three buildings with a total gross floor area of 16,432 sq.m. (176,874 sq.ft.) is under construction. (Please see note (2) below).  There is one building with a gross floor area of 1,075 sq.m. without building ownership certificate.  The land use rights of the property have been granted for terms of 50 years due to expire on 16 October 2047 to 5 September 2057 for industrial use.		

*Notes:*

- (1) According to 6 Certificates for the Use of State-owned Land, the land use rights of the property comprising a total site area of 99,206.48 sq.m. have been granted to Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) for industrial use with the details are as follows:

Certificate No.	Location	Date of Expiry	Site Area (sq.m.)
(2005) 364	29 Fudian Shang Chong	11 May 2049	1,383.20
(2005) 365	29 Fudian Shang Chong	16 October 2047	25,080.92
(2005) 3649	30 & 31 Fudian Shang Chong	30 October 2055	38,173.65
(2005) 4050	30 & 31 Fudian Shang Chong	11 December 2055	1,575.65
(2007) 4706	33 Fudian Shang Chong	5 September 2057	25,657.93
(2008) 853	31 Fudian Shang Chong	7 July 2057	7,335.13
<b>Total</b>			<b>99,206.48</b>

## APPENDIX IV

## PROPERTY VALUATION

- (2) According to 18 Building Ownership Certificates, the building ownership of the property with total gross floor area of 35,145.59 sq.m. have been vested to Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) with the details are as follows:

Certificate No.	Gross Floor Area (sq.m.)	Level	Structure
4416922	1,026.21	3	Mix
4416923	2,976.04	3	Frame
4416924	7,986.42	4	Frame\Other
4416925	366.62	1	Frame
4416926	669.78	2	Frame
4416927	197.88	2	Frame
4416928	10,331.86	3	Frame\Other
4416929	98.10	1	Mix
4416930	118.70	1	Mix
4416931	287.10	1	Frame
4416932	512.82	3	Frame\Mix
4252308	2,689.50	2	Mix
4252309	3,845.70	4	Mix
4252310	1,090.40	1	Mix
4252311	377.70	1	Mix
4252312	125.00	2	Mix
4252314	509.50	1	Mix
4252319	1,936.26	2	Frame
<b>Total</b>	<b>35,145.59</b>		

We note that three buildings with a gross floor area of 16,432 sq.m. is under construction. As advised by the Group, two buildings with a total gross floor area of 15,272 sq.m. will be obtained the Building Ownership Certificate in October 2009. In the course of our valuation, we have not assigned values to those buildings. However, on the assumption that the buildings are completed and have been obtained the title documents, the capital value of the buildings as at 31 August 2009 would be RMB16,600,000.

Moreover, we note that there is one temporary building with a gross floor area of 1,075 sq.m. without the Building Ownership Certificates. In the course of our valuation, we have not assigned value to this building.

- (3) According to Business Licence No. 450400400000725 dated 18 July 2008, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) was established with a registered capital of RMB73,300,000 and a valid operation period from 26 November 2004 to 25 November 2034.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser which contains, inter-alia, the following information:
- (i) Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) has lawfully owned the land use right of the property.
  - (ii) Wuzhou Shenguan Protein Casing Co., Ltd. is entitled to use, transfer and mortgage the property.
  - (iii) All the land premium stated in the Grant Contracts of Land Use Rights have been duly paid and settled.

## APPENDIX IV

## PROPERTY VALUATION

- (iv) A portion the property with a gross floor area of 18,921.52 sq.m. is mortgaged to Agricultural Bank of China, Wuzhou branch for a loan of RMB5,500,000 and RMB3,500,000 with the security term due to expire on 10 June 2011 and 5 January 2011.respectively.
- (v) A portion of the property with a gross floor area of 13,025.07 sq.m. is mortgaged to Industrial and Commercial Bank of China, Wuzhou branch for a loan of RMB12,400,000 with the security term due to expire on 13 February 2010.
- (vi) A temporary building with a gross floor area 1,075 sq.m. has not been obtained any relevant construction permissions. The said building may be subject to the risk of demolition and a fine may be assessed.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes (Part)
Business Licence	Yes

## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009
2.	Room 2403, Unit 1, No. 18 Zhongshan Road, Wanxiu District, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC  廣西壯族自治區 梧州市萬秀區 中山路18號一單元 2403室	The property comprises a residential unit on level 24 of a 29-storey building completed in about 1990.  The property has a gross floor area of 76.59 sq.m. (824 sq.ft.).  The land use rights of the property has been granted for a term from 18 January 1993 to 17 February 2063 for residential use.	The property is currently vacant.	RMB240,000 (97% interest attributable to the Group: RMB232,800)

*Notes:*

- (1) According to the Building Ownership Certificate No. 4416933, the title of the building having a gross floor area of 76.59 sq.m. is vested in Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司).
- (2) According to Business Licence No. 450400400000725 dated 18 July 2008, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) was established with a registered capital of RMB73,300,000 and a valid operation period from 26 November 2004 to 25 November 2034.
- (3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser which contains, inter-alia, the following information:
  - (i) Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) has lawfully owned the land use right of the property;
  - (ii) Wuzhou Shenguan Protein Casing Co., Ltd. is entitled to use, transfer and mortgage the property; and
  - (iii) All the land premium stated in the Grant Contracts of Land Use Rights have been duly paid and settled.
- (4) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Building Ownership Certificate	Yes
Business Licence	Yes

## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

Property interest	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009
3. Industrial Complex, Lot F1 and F2, Wangfu Industrial Park, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC  廣西壯族自治區 梧州市 旺甫工業園區 F2地塊及上蓋之 工業物業	The property comprises workshop No.1 & 2 erected on two parcels of industrial land with a total site area of approximately 233,432.70 sq.m. (2,512,670 sq.ft.).  Two workshops with a total gross floor area of 42,920 sq.m. (461,991 sq.ft.) are under construction. (Please see notes (3) & (4) below).  The land use rights of the property have been granted for terms of 50 years due to expire on 6 April 2058 for industrial use.	Workshop 1 is occupied by the Group.  Workshop 2 is vacant.  The other portion is currently vacant site.	RMB45,000,000 (97% interest attributable to the Group: RMB43,650,000)

*Notes:*

- (1) According to the Certificate for the Use of State-owned Land Nos. (2008) 7251 and (2009) 3035, the land use rights of the property comprising a total site area of 233,432.70 sq.m. have been granted to Wuzhou Shenguan Biological Industrial Development Limited (梧州市神冠生物實物開發有限公司) for a term due to expire on 6 April 2058 and 4 August 2057 respectively for industrial use.
- (2) According to the State-owned Land Use Rights Transfer Agreement entered into between Wuzhou Industrial Park Investment Management Co., Ltd. (梧州工業園區投資開發管理有限公司) (“Party A”) and Wuzhou Shenguan Biological Industrial Development Limited (梧州市神冠生物實業開發有限公司) (“Party B”) dated 8 July 2008, the land use rights of a parcel of land having a total site area of approximately 176,434.71 sq.m. were agreed to be transferred to Party B for a term of 50 years for industrial use at a consideration of RMB36,930,000.  
  
According to the State-owned Land Use Rights Transfer Agreement entered into between Wuzhou Industrial Park Investment Management Co., Ltd. (梧州工業園區投資開發管理有限公司) (“Party A”) and Wuzhou Shenguan Biological Industrial Development Limited (梧州市神冠生物實業開發有限公司) (“Party B”) dated 28 May 2009, the land use rights of a parcel of land having a total site area of approximately 56,997.99 sq.m. were agreed to be transferred to Party B for a term of 50 years for industrial use at a consideration of RMB5,130,000.
- (3) According to two Planning Permit for Construction Works Nos. 450404200902270501 and 45040320040022 issued by Wuzhou Construction and Planning Committee on 27 February 2009, and 28 February 2009 respectively, the construction works of the property with a gross floor area of 42,800 sq.m. was in compliance with the requirement of urban planning and was permitted to be developed.

## APPENDIX IV

## PROPERTY VALUATION

- (4) According to two Permit for Commencement of Construction Works Nos. 450404200902270501 issued by Wuzhou Construction and Planning Committee (梧州市建設與規劃委員會) on 27 February 2009, the construction works of the property with a gross floor area of approximately 20,750 is in compliance with the requirements for works commencement and are permitted.
- (5) The application of the Construction Work Completion Examination Certificate for the two workshops is under process. In the course of our valuation, we have not assigned value to these buildings which are under construction. However, on the assumption that the buildings are completed and have been obtained the title documents, the capital value of the buildings as at 31 August 2009 would be RMB18,000,000.
- (6) According to Business Licence No. 450400000004184 dated 8 April 2008, Wuzhou Shenguan Biological Industrial Development Limited (梧州市神冠生物實業開發有限公司) was established with a registered capital of RMB10,000,000 and a valid operation period from 8 April 2008 to 7 April 2028.
- (7) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser which contains, inter-alia, the following information:
- (i) Wuzhou Shenguan Biological Industrial Development Limited (梧州神冠蛋白腸衣有限公司) has lawfully owned the land use right of the property; and
  - (ii) Wuzhou Shenguan Biological Industrial Development Limited is entitled to use, transfer and mortgage the property.
  - (iii) Wuzhou Shenguan Biological Industrial Development Limited is entitled to construct Workshop Nos. 1 and 2.
  - (iv) There is no legal obstacle to obtain the building ownership certificate when the Construction Work Completion Examination Certificate is being obtained.
- (8) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	No
Planning Permit for Construction Works	Yes
Planning Permit for Commencement of Construction Works	Yes
Business Licence	Yes



## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009
4.	A parcel of industrial land, Lot F1, Wangfu Industrial Park, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC  廣西壯族自治區 梧州市 旺甫工業園區 F1地塊	The property comprises two parcels of industrial land with a total site area of approximately 19,502.73 sq.m. (209,927 sq.ft.).  The land use rights of the property have been granted for terms of 50 years due to expire on 19 September 2057 and 28 June 2057 for industrial use.	The property is currently vacant.	RMB3,800,000 (97% interest attributable to the Group: RMB3,686,000)

*Notes:*

- (1) According to two Certificate for the Use of State-owned Land Nos. (2008) 599 and (2008) 6228, the land use rights of the property comprising a total site area of 19,502.73 sq.m. have been granted to Guangxi Wuzhou Xingke Electronic Company Limited (廣西梧州星科電子有限公司) for terms due to expire on 19 September 2057 and 28 June 2057 respectively for industrial use.
- (2) According to the State-owned Land Use Rights Grant Contract No. (2007)110 entered into between Guangxi Zhuang Autonomous Region Wuzhou Land Resources Bureau (廣西壯族自治區梧州市國土資源局) (“Party A”) and Guangxi Wuzhou Xingke Electronic Company Limited (廣西梧州星科電子有限公司) (“Party B”) dated 5 September 2007, the land use rights of a parcel of land having a total site area of approximately 19,502.73 sq.m. were agreed to be granted to Party B for a term of 50 years for industrial use at a consideration of RMB 1,685,816.
- (3) According to Business Licence No. 450400200000268 dated 9 July 2008, Guangxi Wuzhou Xingke Electronic Company Limited (廣西梧州星科電子有限公司) was established with a registered capital of RMB5,000,000 and a valid operation period from 31 December 2005 to 30 December 2055.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser which contains, inter-alia, the following information:
  - (i) Guangxi Wuzhou Xingke Electronic Company Limited (廣西梧州星科電子有限公司) has lawfully owned the land use right of the property;
  - (ii) Guangxi Wuzhou Xingke Electronic Company Limited (廣西梧州星科電子有限公司) is entitled to use, transfer and mortgage the property; and
  - (iii) All the land premium stated in the Grant Contracts of Land Use Rights have been duly paid and settled.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
State-owned Land Use Rights Grant Contract	Yes
Business Licence	Yes

## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group II – Property leased by the Group in the PRC

	Property interest	Description and tenure	Capital value in existing state as at 31 August 2009
5.	Shop unit No. 1, 1/F, No. 45 Dadong Xia Road, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC	<p>The property comprises a shop with a total gross floor area of approximately 73.18 sq.m. (788 sq.ft.)</p> <p>The property is currently leased from an independent third party to the Group for a term for 2 years from 1 May 2008 to 30 April 2010 with a monthly rent of RMB790 for commercial use.</p> <p>According to the PRC legal opinion, there is no legal title document of the property provided by the lessor. Hence, the PRC legal adviser was unable to confirm if the landlord has the right to lease out the property and whether the property is subject to mortgage. According to the PRC law, the lease might be declared to be void or invalid by the relevant authority when disputes arise over the lease. However, the Group have the right to recover the losses from the lessor.</p> <p>The PRC legal adviser also confirmed that the lease has not been registered in relevant authority.</p>	No commercial value

## APPENDIX IV

## PROPERTY VALUATION

			<b>Capital value in existing state as at 31 August 2009</b>
	<b>Property interest</b>	<b>Description and tenure</b>	
6.	Shop unit No. 5, Anhu Lane Market, Dong Zhong Road, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC	<p>The property comprises a shop which is currently leased from an independent third party to the Group for a term for 2 years from 1 May 2008 to 30 April 2010 with a monthly rent of RMB1,455 for commercial use.</p> <p>According to the PRC legal opinion, there is no legal title document of the property provided by the lessor. Hence, the PRC legal adviser was unable to confirm if the landlord has the right to lease out the property and whether the property is subject to mortgage. According to the PRC law, the lease might be declared to be void or invalid by the relevant authority when disputes arise over the lease. However, the Group has the right to recover the losses from the lessor.</p> <p>The PRC legal adviser also confirmed that the lease has not been registered with the relevant authority.</p>	No commercial value

## APPENDIX IV

## PROPERTY VALUATION

			<b>Capital value in existing state as at 31 August 2009</b>
	<b>Property interest</b>	<b>Description and tenure</b>	
7.	Shop unit No. 16, Lianhuju, Shengtong Lane, Xinxing First Road, Wuzhou, Guangxi Zhuang Autonomous Region, the PRC	<p>The property comprises a shop with a total gross floor area of approximately 20.50 sq.m. (221 sq.ft.)</p> <p>The property is currently leased from an independent third party to the Group for a term for 2 years from 1 August 2008 to 31 July 2010 with a monthly rent of RMB1,380 and there will be a 6% rental increment for the second year for commercial use.</p> <p>According to the PRC legal opinion, there is no legal title document of the property provided by the lessor. Hence, the PRC legal adviser was unable to confirm if the landlord has the right to lease out the property and whether the property is subject to mortgage. According to the PRC law, the lease might be declared to be void or invalid by the relevant authority when disputes arise over the lease. However, the Group has the right to recover the losses from the lessor.</p> <p>The PRC legal adviser also confirmed that the lease has not been registered with the relevant authority.</p>	No commercial value

## APPENDIX IV

## PROPERTY VALUATION

### VALUATION CERTIFICATE

#### Group III – Property leased by the Group in Hong Kong

	Property interest	Description and tenure	Capital value in existing state as at 31 August 2009
8.	Unit 2902, Sino Plaza, Causeway Bay, Hong Kong	<p>The property comprises an office unit on the 29th floor of a 31-storey office building completed in 1992.</p> <p>The property has a gross floor area of approximately 145.86 sq.m. (1,570 sq.ft.), and is occupied by the Group as office.</p> <p>The property is currently leased from an independent third party to the Group for a term from 2 March 2009 to 19 May 2010 with a monthly rent of HK\$65,940 exclusive of rates and management fees.</p>	No commercial value

## **APPENDIX V**

## **TAXATION AND FOREIGN EXCHANGE**

### **MAINLAND CHINA TAXATION**

Because we are not incorporated in mainland China, your investment in our Shares is largely exempt from PRC tax laws. But because virtually all of our business operations are in mainland China and we carry out these business operations through operating subsidiaries organized under the PRC law, our PRC operations and our operating subsidiaries in mainland China are subject to PRC tax laws and regulations, which indirectly affect your investment in our Shares.

#### **Dividends from our PRC operations**

Under the PRC tax laws effective prior to 1 January 2008, dividends paid by our PRC subsidiaries or joint ventures to us were exempt from PRC income tax. However, pursuant to the PRC Enterprise Income Tax Law and its implementation rules that became effective on 1 January 2008, dividends generated after 1 January 2008 which are payable by foreign invested enterprises, such as subsidiaries and joint ventures in the PRC, to their foreign investors are subject to a withholding tax at a rate of 10%.

Under the new tax law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in the PRC are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. For such PRC tax purposes, dividends from PRC subsidiaries to their foreign shareholders are excluded from such taxable worldwide income. Under the implementation rules of the new Enterprise Income Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

#### **Dividends we pay to you**

Because we are not incorporated in mainland China, under the PRC tax laws effective prior to 1 January 2008, even though we had significant operating subsidiaries and joint ventures in mainland China, our distribution of dividends to our overseas investors was not subject to PRC tax. The new PRC enterprise income tax law and its implementation rules, however, impose a withholding tax at the rate of 10% on dividends paid to investors that are “non-resident enterprises” (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) to the extent such dividends are sourced within the PRC. It is not clear whether you will be subject to such PRC withholding taxes as a result. Although a foreign investor has such establishment or place of business in the PRC, such withholding is not applicable if the relevant income is not effectively connected with its establishment or place of business in the PRC. Due to these new provisions in the PRC tax law, despite many uncertainties with respect to their actual intentions and practical effects, if we are considered a PRC resident enterprise, the dividends we pay with respect to our Shares may be treated as income derived from sources within the PRC and be subject to the PRC withholding tax.

#### **Transfer or disposition of our Shares**

As we are not incorporated in mainland China, under the PRC tax laws, any transfer or disposition of our Shares by an overseas investor did not trigger PRC tax liabilities. The new PRC enterprise income tax law and its implementation rules, however, impose a withholding tax at the rate of 10% on capital

## APPENDIX V

## TAXATION AND FOREIGN EXCHANGE

gains realized by investors that are “non-resident enterprises,” to the extent such gains are sourced within the PRC. It is not clear whether you will be subject to such PRC withholding taxes as a result. A non-resident enterprise for such tax purposes is defined to include any non-PRC incorporated enterprise that does not have an establishment or place of business in the PRC. Any gain realized on the transfer of Shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Due to these new provisions in the PRC tax law, despite many uncertainties with respect to their actual intentions and practical effects, if we are considered a PRC resident enterprise, the gain you may realize from the transfer of our Shares, may be treated as income derived from sources within the PRC and be subject to the PRC income tax.

### **Our operations in mainland China**

Our subsidiaries through which we conduct our business operations in mainland China are subject to PRC tax laws and regulations, which include the following:

#### *Enterprise Income Tax*

Under the Interim Regulation of the People’s Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例) and the Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法), PRC subsidiaries are generally subject to the 33% corporate income tax. But according to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (No. 63 Order of the President of the PRC) enacted by the National People’s Congress on 16 March 2007 and enforced from 1 January 2008 onwards, and Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (No. 512 Order of the State Council of the PRC) enacted on 6 December 2007 and enforced from 1 January 2008 onwards, a uniform income tax rate of 25% will be applied towards foreign investment and foreign enterprises which have set up institutions or facilities in the PRC as well as PRC enterprises. Enterprises are classified into resident and non-resident enterprises. The term “resident enterprise” refers to an enterprise which is established within the territory of the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is within the territory of the PRC. The term “non-resident enterprise” refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not within the territory of the PRC but which has institutions or establishments within the territory of the PRC; or which has not any institution or establishment within the territory of the PRC but which has incomes sourced in the PRC.

#### *Business Tax*

Under the PRC Interim Regulation on Business Tax (中華人民共和國營業稅暫行條例) of 1994, services in mainland China are subject to business tax. Business tax rate ranges from 3% to 20% and depending on the type of services provided. Our lease and transfer of the operation rights of the underground civil air defense attract a business tax at the rate of 5% of the turnover of the selling enterprise payable to the relevant local tax authorities.

## APPENDIX V

## TAXATION AND FOREIGN EXCHANGE

### FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of the People’s Bank of China (央行) (the “PBOC”), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center had to obtain the prior approval of the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the “Notice of the PBOC Concerning Further Reform of the Foreign Currency Control System” (中國人民銀行關於進一步改革外匯管理體制的公告), effective from 1 January 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On 26 March 1994, the PBOC promulgated the “Provisional Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange” (結匯、售匯及付匯管理暫行規定) (the “Provisional Regulations”), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply of Renminbi. Pursuant to such systems, the PBOC sets and publishes the daily Renminbi-US dollar exchange rate. Such exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

On 29 January 1996, the State Council promulgated “PRC Regulations on the Control of Foreign Exchange” (中華人民共和國外匯管理條例) (“Control of Foreign Exchange Regulations”) which became effective from 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items are still subject to SAFE approval. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997. Such amendment affirms that the State shall not restrict international current account payments and transfers.



## APPENDIX V

## TAXATION AND FOREIGN EXCHANGE

On 20 June 1996, PBOC promulgated the “Regulations on Administration of Settlement, Sale and Payment of Foreign Exchange” (結匯、售匯及付匯管理規定) (the “Settlement Regulations”) which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC published the “Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises” (外商投資企業實行銀行結售匯工作實施方案). The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, PBOC and SAFE promulgated the “Notice Concerning the Discontinuance of Foreign Exchange Swapping Business” (關於停辦外匯調劑業務的通知) pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On 21 July 2005, the PBOC announced that, beginning from 21 July 2005, the PRC will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day. Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC (except for foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in the PRC (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with the relevant regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks. Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or its competent branch.

## APPENDIX V

## TAXATION AND FOREIGN EXCHANGE

On 21 October 2005, SAFE issued the “Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Resident to Engage in Financing and Inbound Investment via Offshore Special Purpose Companies” (關於境內居民通過境外特殊目的公司境外融資及返程投資外匯管理有關問題的通知) which became effective as at 1 November 2005. According to the notice, “special purpose company” (特殊目的公司) refers to the offshore company established or indirectly controlled by the PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprise. Prior to the establishing or assuming control of such special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file or update the registration with the local branch of SAFE within 30 days after any material change happened, which is involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest, with respect to that offshore company. The notice applies retroactively. As a result, PRC residents who have established or acquired control of such offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant overseas investment foreign exchange registration procedures by 31 March 2006.

On 25 December 2006, the PBOC announced the “Measures on the Administration of Individual Foreign Exchange” (個人外匯管理辦法), and on 5 January 2007, SAFE issued the “Notice of the State Administration of Foreign Exchange on Printing and Distributing the Detailed Rules for the Implementation of the Measures on the Administration of Individual Foreign Exchange” (國家外匯管理局關於印發《個人外匯管理辦法實施細則》的通知). According to these regulations, (i) the administration of total annual amount shall apply to individual settlement and domestic individual purchase of foreign exchange. The total annual amount shall be the value equivalent to US\$50,000 for each person every year; (ii) a domestic individual shall make foreign direct investment in accordance with the relevant provisions of the state. As for the required foreign exchange, he/she may purchase foreign exchange or remit the self-owned foreign exchange abroad upon the approval of the local foreign exchange department and shall handle the corresponding formalities for the registration of foreign exchange for overseas investment; (iii) a domestic individual may use foreign exchange or RMB to make financial investment involving overseas regular earnings or rights and interests, etc, through such qualified domestic institutional investors as banks and fund management companies; (iv) where a domestic individual participates in the employee stock ownership plan or stock option plan of an overseas listed company, the foreign exchange business involved shall be handled after the listed company or its domestic agency has filed a unified application and has obtained the approval from the foreign exchange department. The foreign exchange incomes obtained by a domestic individual from selling the stocks under the employee stock ownership plan or stock option plan of an overseas listed company and those from dividend may go through foreign exchange settlement formalities after being remitted to the domestic special foreign exchange account opened by the listed company or its domestic agency, or may be transferred to the employees’ individual foreign exchange savings accounts; and (v) in light of the convertibility progress of RMB under the capital account, the administration of granting loans to overseas individuals, borrowing foreign debts, providing external guarantee and directly participating in transactions involving overseas commodity futures or financial derivative products by domestic individuals shall be gradually loosened, and the specific measures shall be formulated separately.

## **APPENDIX VI**

## **SUMMARY OF CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 24 February 2009 under the Companies Law. The Memorandum and the Articles of Association comprise its constitution.

### **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in Section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 19 September 2009. The following is a summary of certain provisions of the Articles:

#### **(a) Directors**

##### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

## **APPENDIX VI**

## **SUMMARY OF CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise

## **APPENDIX VI**

## **SUMMARY OF CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

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- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

### *(vi) Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds



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for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

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- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

### *(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

### *(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.



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### *(x) Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

### **(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

### **(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

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### **(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

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### **(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

### **(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

### **(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

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The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

### **(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

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Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
  - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
  - (cc) the election of directors in place of those retiring;
  - (dd) the appointment of auditors and other officers;
  - (ee) the fixing of the remuneration of the directors and of the auditors;
  - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
  - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

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The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

### **(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

### **(l) Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

### **(m) Financial assistance to purchase Shares**

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

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### **(n) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.



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Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

### **(o) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

### **(p) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.



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If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

### **(q) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

### **(r) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

### **(s) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

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### **(t) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

### **(u) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

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### **(v) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

### **3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### **(a) Operations**

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### **(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

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The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

### **(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

### **(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of

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association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(n) above for further details).

### **(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal; (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

### **(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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### **(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

### **(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 10 March 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

### **(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

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### **(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company’s Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

### **(n) Winding up**

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members’ voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company’s affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company’s liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.



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As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

### **(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **(q) Indemnification**

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## **4. GENERAL**

Conyers Dill & Pearman, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed “Documents available for inspection” in Appendix VIII to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

### A. FURTHER INFORMATION ABOUT OUR COMPANY

#### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 24 February 2009. Our Company has established a principal place of business in Hong Kong at Unit 2902, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 30 June 2009. In connection with such registration, Loong & Yeung of Suites 2201-2203, 22/F., Jardine House, 1 Connaught Place, Central, Hong Kong has been appointed as the agent for the acceptance of service of process and any notices serve on our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, our operation is subject to the Companies Law and to our constitution which comprises the Memorandum and Articles of Association. A summary of various parts of the constitution and certain relevant aspects of the Cayman Islands company law is set out in Appendix VI to this document.

#### 2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, our authorized share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, one of which was allotted and issued nil paid to the subscriber to the memorandum of association of our Company, and the one nil paid Share was subsequently transferred from the subscriber to Ms. Zhou on 24 February 2009.
- (b) On 22 June 2009, the one nil paid Share was transferred from Ms. Zhou to Rich Top Future at the consideration of HK\$1.
- (c) Pursuant to the Reorganization and as consideration for the acquisition by our Company of one ordinary share of US\$1 in the issued share capital of each of Jumbo Gain and Full Win, and 10,000 ordinary shares of US\$1 each in the issued share capital of Shenguan Industrial, on 18 September 2009, (i) 999,999 Shares, all credited as fully paid, were allotted and issued to Rich Top Future; and (ii) the one nil paid Share then held by Rich Top Future was credited as fully paid at par.
- (d) On 19 September 2009, Rich Top Future transferred 103,350 Shares, 32,890 Shares and 21,650 Shares to Xian Sheng, Wealthy Safe and Cheng Sheng, respectively, all at the consideration of HK\$1.
- (e) On 19 September 2009, our Shareholders resolved to increase the authorized share capital of our Company from HK\$380,000 to HK\$200,000,000 by the creation of an additional of 19,962,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.

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[●]

### 3. Written resolutions of all our Shareholders passed on 19 September 2009

[●]

### 4. Corporate reorganization

The companies comprising our Group underwent the Reorganization to rationalize our Group’s structure in preparation for the [●] on the [●], pursuant to which our Company became the holding company of our Group.

The Reorganization included the following major steps:

- (a) On 21 April 2008, Shenguan Industrial was incorporated in the BVI with limited liability with an authorized capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (b) On 30 April 2008, Shenguan Investments was incorporated in Hong Kong with limited liability with an authorized capital of HK\$1,000 divided into 100,000 shares of HK\$0.01 each, one of which was allotted and issued at par to the subscriber to the memorandum and articles of association of Shenguan Investments on the same date.
- (c) On 29 August 2008, 10,000 shares in Shenguan Industrial were allotted and issued to Shenguan BVI at the consideration of US\$10,000.
- (d) On 29 August 2008, the one share in Shenguan Investments was transferred from the subscriber to the memorandum and articles of association of Shenguan Investments to Shenguan Industrial at the consideration of HK\$0.01.
- (e) On 2 January 2009, Full Win was incorporated in the BVI with limited liability and was authorized to issue a maximum of 50,000 shares.
- (f) On 2 January 2009, Jumbo Gain was incorporated in the BVI with limited liability and was authorized to issue a maximum of 50,000 shares.
- (g) On 13 February 2009, Excel Gather was incorporated in Hong Kong with limited liability with an authorized capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, one of which was allotted and issued at par to the subscriber to the memorandum and articles of association of Excel Gather.
- (h) On 24 February 2009, our Company was incorporated in the Cayman Islands with limited liability with an authorized share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, one of which was allotted and issued nil paid to the subscriber to our memorandum of association and the one Share was subsequently transferred to Ms. Zhou on the same date.

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- (i) On 26 February 2009, Forever Gather was incorporated in Hong Kong with limited liability with an authorized capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, one of which was allotted and issued at par to the subscriber to the memorandum and articles of association of Forever Gather.
- (j) On 11 March 2009, by a directors’ resolution, Full Win was authorized to issue a maximum of 50,000 shares each with a par value of US\$1. On the same date, one share in Full Win, credited as fully paid, was allotted and issued to Rich Top Future.
- (k) On 11 March 2009, by a director’s resolution, Jumbo Gain was authorized to issue a maximum of 50,000 shares each with a par value of US\$1. On the same date, one share in Jumbo Gain, credited as fully paid, was allotted and issued to Glories Site.
- (l) On 11 March 2009, the one share in Excel Gather was transferred from the subscriber to the memorandum and articles of association of Excel Gather to Full Win at the consideration of HK\$1.
- (m) On 11 March 2009, the one share in Forever Gather was transferred from the subscriber to the memorandum and articles of association of Forever Gather to Jumbo Gain at the consideration of HK\$1.
- (n) On 14 May 2009, Shengguan BVI transferred its 10,000 shares in Shenguan Industrial, representing the entire issued share capital of Shenguan Industrial to Ms. Zhou at the consideration of HK\$1.
- (o) Pursuant to a share transfer agreement dated 26 May 2009, Wuzhou Xiansheng transferred its 18.7% equity interest in Wuzhou Shenguan to Hong Kong Shenguan at the consideration of RMB15,764,100.
- (p) Pursuant to the share transfer agreement dated 27 May 2009 referred to in item (f) of the paragraph headed “Summary of material contracts” in this appendix, Exceltech transferred its 20.21% equity interest in Wuzhou Shenguan to Excel Gather at the consideration of RMB17,036,030.
- (q) Pursuant to the share transfer agreement dated 27 May 2009 referred to in item (g) of the paragraph headed “Summary of material contracts” in this appendix, C.T. Company transferred its 13.30% equity interest in Wuzhou Shenguan to Excel Gather at the consideration of RMB11,211,900.
- (r) Pursuant to the share transfer agreement dated 27 May 2009 referred to in item (h) of the paragraph headed “Summary of material contracts” in this appendix, Hong Kong Shenguan transferred its 63.49% equity interest in Wuzhou Shenguan to Forever Gather at the consideration of RMB53,523,070.
- (s) On 22 June 2009, the one Share was transferred from Ms. Zhou to Rich Top Future at the consideration of HK\$1.

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- (t) On 22 June 2009, Glories Site transferred the one share in Jumbo Gain, representing the entire issued share capital of Jumbo Gain, to Rich Top Future and 65,454 shares in Rich Top Future, credited as fully paid, were allotted and issued to Glories Site as consideration. Before completion of the above share transfer and issue of shares, Rich Top Future was owned as to 60.31% by Brighten Lane and 39.69% by Sky Green. After completion of the above share transfer and issue of shares, Rich Top Future was owned as to approximately 65.45% by Glories Site, as to approximately 20.84% by Brighten Lane and as to approximately 13.71% by Sky Green.
- (u) On 22 June 2009, Ms. Zhou transferred her 10,000 shares in Shenguan Industrial, representing the entire issued share capital of Shenguan Industrial, to Rich Top Future at the consideration of HK\$1.
- (v) On 18 September 2009, pursuant to the agreement referred to in item (m) of the paragraph headed “Summary of material contracts” in this appendix, our Company acquired from Rich Top Future (i) one share in Jumbo Gain, representing the entire issued share capital of Jumbo Gain; (ii) one share in Full Win, representing the entire issued share capital of Full Win; and (iii) 10,000 shares in Shenguan Industrial, representing the entire issued share capital of Shenguan Industrial, and as consideration, (i) in aggregate 999,999 Shares, all credited as fully paid, were allotted and issued to Rich Top Future; and (ii) the one nil paid Share then held by Rich Top Future was credited as fully paid at par.

Immediately after completion of the share transfer referred to in item (v) above, our Company then became the holding company of our Group.

### 5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this document. In addition to the alterations described in paragraph headed “Corporate reorganization” above, the following changes in the share capital (or registered capital, as the case may be) of the subsidiaries of our Company took place within the two years immediately preceding the date of this document:

#### *Wuzhou Shenguan*

- (i) On 27 June 2008, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB30,000,000 to RMB73,300,000 by the conversion of the capital reserves of RMB35,911,884.10 and reserve funds of RMB7,388,115.90 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng contributed RMB19,394,070, RMB8,750,930, RMB5,758,900 and RMB9,396,100, respectively, by the capitalization of their respective share in the capital reserves and reserve funds of Wuzhou Shenguan in proportion to their respective capital contribution to Wuzhou Shenguan and their respective percentage of capital contribution in Wuzhou Shenguan remained unchanged.

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- (ii) On 1 June 2009, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB73,300,000 to RMB84,300,000 by the conversion of the capital reserves of RMB752,447 and the reserve funds of RMB10,247,553 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng contributed RMB4,926,900, RMB2,223,100, RMB1,463,000 and RMB2,387,000, respectively, by the capitalization of their respective share in the capital reserves and reserve funds of Wuzhou Shenguan in proportion to their respective capital contribution to Wuzhou Shenguan and their respective percentage of capital contribution in Wuzhou Shenguan remained unchanged.

### *Shenguan Biological*

Shenguan Biological was established in the PRC on 8 April 2008 with a registered capital of RMB10,000,000 being contributed by Wuzhou Shenguan.

On 22 May 2009, its sole equity holder, Wuzhou Shenguan resolved to increase the registered capital of Shenguan Biological from RMB10,000,000 to RMB30,000,000. As at 31 May 2009, Wuzhou Shenguan had fully settled the increased amount of RMB20,000,000 in the registered capital of Shenguan Biological.

### *Shensheng Jiaoyuan*

Shenguan Jiaoyuan was established in the PRC on 29 April 2009 with a registered capital of RMB10,000,000 being contributed by Wuzhou Shenguan.

### *Wuzhou Xingke*

Shenguan Biological acquired the entire equity interest in Wuzhou Xinke pursuant to (i) a share transfer agreement dated 8 July 2008 between Shenguan Biological and Fan Yanping, by which Fan Yanping transferred 90% equity interest in Wuzhou Xingke to Shenguan Biological; and (ii) a share transfer agreement dated 8 July 2008 between Shenguan Biological and Fan Pengfei, by which Fan Pengfei transferred 10% equity interest in Wuzhou Xingke to Shenguan Biological. At the time of the acquisition, the registered capital of Wuzhou Xingke was RMB500,000.

Save as disclosed above and as mentioned in the paragraph headed “Corporate reorganization” in this appendix, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

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### 6. Repurchase of our Shares by our Company

This section includes information required by the [●] to be included in the document concerning the repurchase of our Shares by our Company.

#### (a) Provisions of the [●]

The [●] permit companies with a [●] on the [●] to purchase their shares on the [●] subject to certain restrictions.

##### (i) Shareholders’ approval

The [●] provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a [●] on the [●] must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

*Note* [●]

##### (ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. [●]

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorized by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company’s share premium account before or at the time our Shares are repurchased or, if authorized by the Articles and subject to the Companies Law, out of capital.

##### (iii) Connected parties

The [●] prohibit our Company from knowingly repurchasing our Shares on the [●] from a “connected person”, which includes a Director, chief executive or substantial Shareholder of our Company or any of our subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

#### (b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

#### (c) Exercise of the Repurchase Mandate

[●]

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### *(d) Funding of repurchase*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the [●] and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

### *(e) General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the [●]), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the [●] that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the [●] and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders’ interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

[●]

No connected person (as defined in the [●]) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.



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### B. FURTHER INFORMATION ABOUT THE BUSINESS

#### 1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) a project investment agreement dated 21 March 2008 in Chinese entered into between Wuzhou Shenguan and the Management Committee of Wuzhou Industrial Park, Guangxi (廣西梧州工業園區管理委員會), pursuant to which Wuzhou Shenguan agreed to invest an amount of RMB280 million for the proposed investment, construction and operation of a new project in Wuzhou Industrial Park (梧州工業園區);
- (b) a project investment supplemental agreement dated 21 March 2008 in Chinese in relation to the agreement referred to in item (a) above and entered into between Wuzhou Shenguan and the Management Committee of Wuzhou Industrial Park, Guangxi (廣西梧州工業園區管理委員會), pursuant to which Wuzhou Shenguan and the Management Committee of Wuzhou Industrial Park, Guangxi (廣西梧州工業園區管理委員會) agreed on, inter alia, further details on the transfer of land under the new project;
- (c) a construction investment agreement for standard factory and other projects dated 21 March 2008 in Chinese in relation to the agreement referred to in item (a) above and entered into between Wuzhou Shenguan and the Management Committee of Wuzhou Industrial Park, Guangxi (廣西梧州工業園區管理委員會), pursuant to which Wuzhou Shenguan and the Management Committee of Wuzhou Industrial Park, Guangxi (廣西梧州工業園區管理委員會) agreed on, inter alia, further details on the transfer of land under the new project;
- (d) a financial products investment agreement dated 1 April 2009 in Chinese entered into between Wuzhou Shenguan and Wuzhou Branch of Industrial and Commercial Bank of China (中國工商銀行梧州分行), pursuant to which Wuzhou Shenguan agreed to subscribe for super-short term RMB financial products offered by Wuzhou Branch of Industrial and Commercial Bank of China (中國工商銀行梧州分行) in the amount of RMB45,000,000;
- (e) a project investment agreement in relation to Shensheng Jiaoyuan dated 15 April 2009 in Chinese entered into between Wuzhou Shenguan and The People’s Government of Wanxiu District of Wuzhou (梧州市萬秀區人民政府), pursuant to which Wuzhou Shenguan agreed to invest an amount of RMB380 million for the proposed investment, construction and operation of a new project at Wanxiu Sifuchong, Chengdong Town, Wanxiu District, Wuzhou (梧州市萬秀區城東鎮思扶沖);



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- (f) a share transfer agreement dated 27 May 2009 in Chinese entered into between Exceltech and Excel Gather, pursuant to which Exceltech transferred its 20.21% equity interest in Wuzhou Shenguan to Excel Gather at the consideration of RMB17,036,030;
- (g) a share transfer agreement dated 27 May 2009 in Chinese entered into between C.T. Company and Excel Gather, pursuant to which C.T. Company transferred its 13.30% equity interest in Wuzhou Shenguan to Excel Gather at the consideration of RMB11,211,900;
- (h) a share transfer agreement dated 27 May 2009 in Chinese entered into between Hong Kong Shenguan and Forever Gather, pursuant to which Hong Kong Shenguan transferred its 63.49% equity interest in Wuzhou Shenguan to Forever Gather at the consideration of RMB53,523,070;
- (i) a termination agreement dated 19 June 2009 in Chinese entered into between Wuzhou Shenguan and Wuzhou Sanjian, pursuant to which Wuzhou Shenguan and Wuzhou Sanjian agreed to terminate the agreement dated 12 November 2005 and the supplemental agreement dated 12 December 2005, both related to, inter alia, the disposal of certain assets by Wuzhou Sanjian to Wuzhou Shenguan;
- (j) a share transfer supplemental agreement dated 12 July 2009 in Chinese entered into between Exceltech and Excel Gather, pursuant to which Exceltech and Excel Gather agreed the consideration of RMB17,036,030 under the agreement as referred to in item (f) above to be settled in Hong Kong Dollars and in the amount of HK\$19,321,798.80;
- (k) a share transfer supplemental agreement dated 12 July 2009 in Chinese entered into between C.T. Company and Excel Gather, pursuant to which C.T. Company and Excel Gather agreed the consideration of RMB11,211,900 under the agreement as referred to in item (g) above to be settled in Hong Kong Dollars and in the amount of HK\$12,716,230.01;
- (l) a share transfer supplemental agreement dated 12 July 2009 in Chinese entered into between Hong Kong Shenguan and Forever Gather, pursuant to which Hong Kong Shenguan and Forever Gather agreed the consideration of RMB53,523,070 under the agreement as referred to in item (h) above to be settled in Hong Kong Dollars and in the amount of HK\$60,704,400.59;
- (m) a share transfer agreement dated 18 September 2009 entered into between Rich Top Future and our Company, and Ms. Zhou, Mr. Low and Mr. Wei as warrantors, pursuant to which our Company acquired from Rich Top Future (i) one share in Jumbo Gain, representing the entire issued share capital of Jumbo Gain; (ii) one share in Full Win, representing the entire issued share capital of Full Win; and (iii) 10,000 shares in Shenguan Industrial, representing the entire issued share capital of Shenguan Industrial, and as consideration, (i) in aggregate 999,999 Shares, all credited as fully paid, were allotted and issued by the Company to Rich Top Future; and (ii) the one nil paid Share then held by Rich Top Future was credited as fully paid at par by the Company;

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- (n) an instrument of transfer dated 18 September 2009 entered into between Rich Top Future and our Company for the transfer of one share in Jumbo Gain as referred to in item (m) above for the consideration of (i) crediting the one nil paid Share then held by Rich Top Future as fully paid at par by the Company; and (ii) allotting and issuing 634,899 Shares, all credited as fully paid, by the Company to Rich Top Future;
- (o) an instrument of transfer dated 18 September 2009 entered into between Rich Top Future and our Company for the transfer of one share in Full Win as referred to in item (m) above for the consideration of allotting and issuing 335,100 Shares, all credited as fully paid, by the Company to Rich Top Future;
- (p) an instrument of transfer dated 18 September 2009 entered into between Rich Top Future and our Company for the transfer of 10,000 shares in Shenguan Industrial as referred to in item (m) above for the consideration of allotting and issuing 30,000 Shares, all credited as fully paid, by the Company to Rich Top Future;
- (q) a deed of non-competition undertaking dated 19 September 2009 in Chinese executed by Ms. Zhou in favor of our Company, details of which are set out in the paragraph headed “Non-competition undertaking” under the section headed “Relationship with Our Controlling Shareholders” in this document;
- (r) a deed of non-competition undertaking dated 19 September 2009 in Chinese executed by Mr. Low in favor of our Company, details of which are set out in the paragraph headed “Non-competition undertaking” under the section headed “Relationship with Our Controlling Shareholders” in this document;
- (s) a deed of non-competition undertaking dated 19 September 2009 in Chinese executed by Mr. Wei in favor of our Company, details of which are set out in the paragraph headed “Non-competition undertaking” under the section headed “Relationship with Our Controlling Shareholders” in this document;
- (t) [●]; and
- (u) a deed of indemnity dated [●] executed by [●] in favor of our Group containing the indemnities referred to in the paragraph headed “Tax Indemnity” in this appendix.

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### 2. Intellectual property rights

#### *Trademarks*

As at the Latest Practicable Date, our Group had the following registered trademarks:

Trademark	Registration Number	Class	Registration Date	Expiry Date	Place of registration
	745585	18	14 May 1995	13 May 2015	the PRC
	1013248	29	21 May 1997	20 May 2017	the PRC
	85132	18	7 March 2005	7 March 2015	Vietnam
	897093	18	15 August 2006	15 August 2016	Madrid, Spain
	3,369,568	18	15 August 2006	15 August 2016	USA
	636004	18	17 August 2006	16 August 2016	Thailand
	06015025	18	23 August 2006	23 August 2016	Malaysia
	828586969	18	26 July 2006	26 July 2016	Brazil

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks, the registration of which has not yet been granted:

Trademark	Application Date	Application Number	Class	Place of Application
	10 October 2006	1319331	18	Canada
	10 July 2009	301381699	18, 29	Hong Kong

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### *Patents*

As at the Latest Practicable Date, our Group had the following registered patents in the PRC:

Patent	Patent Number	Registrant	Expiry Date
A method and facilities for production of collagen sausage casing	ZL95116018.4	Wuzhou Shenguan	25 September 2015
A method for production of collagen sausage casing	ZL95118575.6	Wuzhou Shenguan	7 November 2015
Method and facilities for production of collagen sausage casing from alkaline collagen	ZL95119364.3	Wuzhou Shenguan	5 December 2015
Method for production of edible collagen sausage casing	ZL96122253.0	Wuzhou Shenguan	19 December 2016

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As at the Latest Practicable Date, our Group had applied for registration of the following patents in the PRC, the registration of which has not yet been granted:

Patent	Application Number	Application Date
Method for production of collagen sausage casing in small to medium diameters	200810116408.X	9 July 2008
A kind of batch folding machine	200910080281.5	17 March 2009
A kind of batch folding machine	200920106537.0	17 March 2009
A kind of continuous folding machine	200910080761.1	27 March 2009
A kind of continuous folding machine	200920106498.4	27 March 2009
A kind of fiber remover	200910080760.7	27 March 2009
A kind of fiber remover	200920106499.9	27 March 2009
A kind of mixing and kneading machine	200910080759.4	27 March 2009
A kind of mixing and kneading machine	200920106500.8	27 March 2009
A kind of hydraulic filtering machine	200910088472.6	2 July 2009
A kind of hydraulic filtering machine	200920109783.1	2 July 2009

### *Domain name*

As at the Latest Practicable Date, our Group has registered the following domain name:

Domain name	Date of Registration
shenguan.com.cn	20 May 2001

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### 3. Information about the PRC Subsidiaries of our Group

#### Wuzhou Shenguan

Name:	梧州神冠蛋白腸衣有限公司 (Wuzhou Shenguan Protein Casing Co., Ltd.)
Date of establishment:	26 November 2004
Corporate nature:	Limited liability company (Taiwan, Hong Kong, Macau and domestic equity joint-venture)
Present member and percentage of shareholding:	63.49% held by Forever Gather 33.51% held by Excel Gather 3.00% held by Wuzhou Xiansheng
Total investment:	RMB120,000,000
Total registered capital:	RMB84,300,000 (fully paid up)
Attributable interest of our Company	97.00%
Term:	30 years
Scope of business:	manufacture and sale of collagen sausage casings and dried meat, storage of frozen food, manufacture and processing of leather goods, manufacture and processing of animal skins, primary processing of agricultural products; sales of own products
Legal representative:	Ms. Zhou

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### Shenguan Biological

Name:	梧州市神冠生物實業開發有限公司 (Wuzhou Shenguan Biological Industrial Development Limited)
Date of establishment:	8 April 2008
Corporate nature:	Limited liability company (solely invested by foreign-invested enterprise)
Present member and percentage of shareholding:	100% held by Wuzhou Shenguan
Total registered capital:	RMB30,000,000 (fully paid up)
Attributable interest of our Company	97.00%
Term:	20 years
Scope of business:	manufacture and sale of collagen sausage casings; construction of standard industrial plants
Legal representative:	Ms. Zhou

### Shensheng Jiaoyuan

Name:	梧州市神生膠原製品有限公司 (Wuzhou Shensheng Collagen Products Limited)
Date of establishment:	29 April 2009
Corporate nature:	Limited liability company (solely invested by foreign-invested enterprise)
Present member and percentage of shareholding:	100% held by Wuzhou Shenguan

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Total registered capital:	RMB10,000,000 (fully paid up)
Attributable interest of our Company	97.00%
Term:	20 years
Scope of business:	provision of consultancy services in respect of collagen technology and investment, and construction of industrial plants
Legal representative:	Ms. Zhou

### Wuzhou Xingke

Name:	廣西梧州星科電子有限公司 (Guangxi Wuzhou Xingke Electronic Company Limited)
Date of establishment:	31 December 2005
Corporate nature:	Limited liability company (solely owned by legal person)
Present member and percentage of shareholding:	100% held by Shenguan Biological
Total registered capital:	RMB500,000 (fully paid up)
Attributable interest of our Company	97.00%
Term:	Under de-registration process
Legal representative:	Mr. Li Baowei

## C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

### 1. Disclosure of interests

- (a) Immediately following the completion of the [●] and the [●] but taking no account of our Shares to be issued pursuant to options which may be granted under the [●] or [●] and without taking into account the arrangement under the [●], the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of our associated corporations (within the meaning of [●]) which, once our Shares are [●], will have to be notified to our Company and the [●] pursuant to Divisions 7 and 8 of Part XV of the [●] (including any interests which they are taken or deemed to have under such



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provisions of the [●]) or will be required, pursuant to section 352 of the [●], to be entered in the register referred to therein, or will be required, pursuant to the [●], will be as follows:

(i) *Long position in our Shares*

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage of interest
Ms. Zhou	Interest in controlled corporations (note 1)	1,134,552,000	70.91%

(ii) *Long position in the ordinary shares of associated corporation*

Name of Director	Name of associated corporation	Capacity/Nature	No. of securities held	Approximate percentage of shareholding
Ms. Zhou	Rich Top Future	Interest in controlled corporation (note 1)	[●]	[●]%
Mr. Low	Rich Top Future	Interest in controlled corporation (note 2)	[●]	[●]%

*Note:*

- (1) Ms. Zhou holds 100% interest in Hong Kong Shenguan and Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. [●].
- (2) Mr. Low holds 100% interest in Brighten Lane, which holds approximately 20.84% interest in Rich Top Future. Mr. Low is a director of Brighten Lane and Rich Top Future.

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- (b) So far as is known to our Directors and save as disclosed in this document and taking no account of any Shares to be issued pursuant to the [●] and [●], the following persons (not being a Director or chief executive of our Company) will have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the [●]:

### *Long position in our Shares*

Name	Nature of interest	No. of Shares held	Approximate percentage of shareholding
Rich Top Future	Beneficial owner	[●]	[●]%
Xian Sheng	Beneficial owner	[●]	[●]%
Glories Site	Interest in controlled corporation (note 1)	[●]	[●]%
Hong Kong Shenguan	Interest in controlled corporations (note 2)	[●]	[●]%
Mr. Sha	Interest of spouse (note 3)	[●]	[●]%

### *Note:*

- (1) Glories Site holds approximately 65.45% interest in Rich Top Future.
- (2) 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.
- (3) Mr. Sha is the spouse of Ms. Zhou.

## 2. Particulars of service agreements

Each of our executive and non-executive Directors has entered into a service agreement with our Company for an initial term of three years commencing from the [●], subject to the termination provisions therein. Each of our executive and non-executive Directors may terminate the appointment by giving the other party not less than three months’ prior notice in writing.

Each of our independent non-executive Directors has entered into a service agreement with our Company as an independent non-executive Director for a term of two years commencing on the [●]. Each of our independent non-executive Directors or our Company may terminate the appointment at any time during the two-year term by giving the other party at least three month’s notice in writing.

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Save as disclosed in this document, no Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### 3. Directors’ remuneration

- (a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the years ended 31 December 2006, 2007 and 2008 were approximately RMB3.5 million, RMB4.2 million and RMB4.4 million, respectively.

Mr. Low had not received any remuneration during the Track Record Period as he was only engaged in strategic decision making process and did not involve in our daily business operation.

Except for the year ended 31 December 2008, during which Ms. Zhou, Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生) and Mr. Ru Xiquan (茹希全先生) had waived performance bonuses of RMB1,148,000, RMB457,000, RMB457,000 and RMB457,000, respectively, there was no other arrangement under which any of our Directors waived or agreed to waive any remuneration during the Track Record Period.

- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2009 will be not more than RMB1,100,000.

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- (c) Under the arrangements currently proposed, conditional upon the [●], the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

<b>Executive Directors</b>	<b>HK\$</b>
Ms. Zhou*	1,200,000
Ms. Cai Yueqing (蔡月卿女士)*	480,000
Mr. Shi Guicheng (施貴成先生)*	480,000
Mr. Ru Xiquan (茹希全先生)*	480,000
 <b>Non-executive Director</b>	 <b>HK\$</b>
Mr. Low	180,000
<b>Independent non-executive Directors</b>	<b>HK\$</b>
Mr. Tsui Yung Kwok (徐容國先生)	180,000
Mr. Meng Qinguo (孟勤國先生)	180,000
Mr. Yang Xiaohu (楊小虎先生)	180,000

\* Ms. Zhou, Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生) and Mr. Ru Xiquan (茹希全先生), being also the senior management of Wuzhou Shenguan, are also entitled to a performance – based bonus. The calculation of the performance-based bonus is as follows: for the years ended 31 December 2006, 2007 and 2008, if the profit after tax as stated in the PRC audited accounts of Wuzhou Shenguan for the relevant periods was over RMB10 million, Ms. Zhou, Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生) and Mr. Ru Xiquan (茹希全先生) were entitled to a performance bonus at 1.5%, 0.6%, 0.6% and 0.6% of the profit after tax of Wuzhou Shenguan, respectively. For the six months ended 30 June 2009, if the profit after tax as stated in the PRC audited accounts of Wuzhou Shenguan is over RMB10 million, Ms. Zhou, Ms. Cai Yueqing (蔡月卿女士), Mr. Shi Guicheng (施貴成先生) and Mr. Ru Xiquan (茹希全先生) will be entitled to a performance bonus at 1.0%, 0.4%, 0.4% and 0.4% of the profit after tax of Wuzhou Shenguan, respectively.

#### 4. Fees or commission received

Save as disclosed in this document, none of our Directors or the experts named in the paragraph headed “Consents of experts” in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this document.

#### 5. Related party transactions

Details of the related party transactions are set out under notes 18 and 35 to the Accountants’ Reports set out in Appendix I to this document.

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### 6. Disclaimers

Save as disclosed in this document:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;
- (b) none of our Directors or the experts named in the paragraph headed “Consents of experts” in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors or the experts named in the paragraph headed “Consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
- (d) taking no account of Shares which may be issued pursuant to options which may be granted under [●] or pursuant to [●], have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the [●], or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (e) taking no account of Shares which may be issued pursuant to [●], none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of the [●]) which will have to be notified to [●] pursuant to Divisions 7 and 8 of Part XV of the [●] (including any interests and short positions which he will be taken or deemed to have under such provisions of the [●]) or which will be required, pursuant to section 352 of the [●], to be entered in the register referred to therein, or which will be required, pursuant to [●], to be notified to [●]; and
- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the [●]) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

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### D. SHARE OPTION SCHEME

#### (a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	19 September 2009, the date on which the Share Option Scheme is conditionally adopted by our Shareholders by way of written resolution
“Board”	the board of Directors or a duly authorized committee of the board of Directors
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof

#### (b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of all Shareholders passed on 19 September 2009:

##### (i) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), Directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

##### (ii) *Who may join and basis of eligibility*

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), Director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

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### *(iii) Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) [●]; (ii) [●]; and (iii) the nominal value of a Share.

### *(iv) Grant of options and acceptance of offers*

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.00.

### *(v) Maximum number of Shares*

- (aa) Subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares.
- (bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of our Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit.
- (cc) our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought.
- (dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company, if this will result in such 30% limit being exceeded.

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### *(vi) Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

### *(vii) Grant of options to certain connected persons*

- (aa) Any grant of an option to a Director, chief executive or substantial Shareholder (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
  - (i) representing in aggregate over 0.1% of our Shares in issue; and
  - (ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by Shareholders at a general meeting of our Company.

### *(viii) Restrictions on the times of grant of options*

- (aa) An offer for the grant of options may not be made after a price sensitive event of our Company has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the [●]. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:
  - (i) the date of the Board meeting (such date to first be notified to the [●] in accordance with the [●]) for the approval of our Company’s results for any year, half-year, quarterly or other interim period (whether or not required under the [●]); and



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- (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year under the [●], or quarterly or other interim period (whether or not required under the [●]), and ending on the date of the results announcement.
- (bb) Further to the restrictions in paragraph (aa) above, no option may be granted on any day on which financial results of our Company are published and:
  - (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
  - (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

*(ix) Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

*(x) Performance targets*

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

*(xi) Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

*(xii) Rights are personal to grantee*

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

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### *(xiii) Rights on cessation of employment by death*

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal representative(s) of the grantee may exercise the option up to the grantee’s entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

### *(xiv) Rights on cessation of employment by dismissal*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee’s service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

### *(xv) Rights on cessation of employment for other reasons*

In the event that the grantee is an employee of our Group when an Offer is made to him and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

### *(xvi) Effects of alterations to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be and no such certification is required in case of adjustment made on a [●]) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the [●], or any guideline or supplemental guideline issued by the [●] from time to time (including the supplemental guidance attached

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to the letter from the [●] dated 5 September 2005 to all issuers relating to share option schemes), provided that (i) any alteration shall give a grantee the same proportion of the issued share capital of our Company as that to which he was previously entitled; (ii) any adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as practicable the same (but shall not be greater than) as it was before; and (iii) no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

### *(xvii) Rights on a general offer*

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 1 month after the date on which the offer becomes or is declared unconditional.

### *(xviii) Rights on winding-up*

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

### *(xix) Rights on compromise or arrangement*

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than 2 business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (“Suspension Date”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the

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business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of its officers.

### *(xx) Lapse of options*

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which the Board exercises our Company’s right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xiv), (xv), (xvii) and (xviii) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group;
- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

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### *(xxi) Cancellation of options granted but not yet exercised*

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

### *(xxii) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by our Shareholders in general meeting.

### *(xxiii) Alteration to the Share Option Scheme*

- (aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by [●] shall not be made except with the prior approval of our Shareholders in general meeting.
- (bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of [●].

### *(xxiv) Termination to the Share Option Scheme*

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

### *(xxv) Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on the [●] Committee granting the [●] of, and permission to deal in our Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

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### (c) Present status of the Share Option Scheme

Application has been made to the [●] Committee for [●] of and permission to deal in 160,000,000 Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme.

## E. OTHER INFORMATION

### 1. Tax indemnity

The Controlling Shareholders have, pursuant to the deed of indemnity referred to in item (u) of the paragraph headed “Summary of material contracts” of this appendix, given indemnities in respect of, among other things:

- [(a) estate duty or tax which might be payable by any member of our Group, by reason of any laws of the applicable jurisdictions to any member of our Group; and taxation resulting from income, profits or gains earned, accrued or received on or before the date on which the [●] becomes unconditional (the “**Fulfilment Date**”), save in the following circumstances:
  - (i) to the extent that full provision has been made for such taxation in the audited combined accounts of the Group for the Track Record Period, as set out in Appendix I to this document;
  - (ii) to the extent that the taxation arises in the ordinary course of business of the Group and falls on any of the members of the Group in respect of their current accounting periods or any accounting period commencing on or after the Fulfilment Date;
  - (iii) to the extent that provision or reserve made for taxation in the audited accounts of the members of the Group or any of them for the Track Record Period are finally established to be an over-provision or an excessive reserve provided that the amount established to be the excessive portion of the over-provision or the excessive reserve shall only be applied to reduce the Controlling Shareholders’ liability in respect of taxation up to 30 June 2009;
  - (iv) to the extent that such taxation arises or is increased by an increase in any taxation claim to the extent that such taxation claim or such increased amount of the taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any change in law and/or rates of taxation after the Fulfilment Date with retrospective effect; or
  - (v) for which any member of our Group is primarily liable in respect of or in consequence of any event occurring or income, profits or gains earned, accrued or received or transactions in the ordinary course of business after 30 June 2009.

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- (b) any penalties, claims, actions, payments, demands, proceedings, judgments, settlement payments, losses, liabilities, damages, costs, charges, fees, expenses or fines (other than those having been paid or duly and sufficiently provided in the Accountants’ Report) which our Group may suffer or incur, directly or indirectly, as a result of or in connection with any failure or delay in tax filing in respect of the taxable income derived by any members of our Group on or before the Fulfilment Date;
- (c) any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses or fines which our Group may suffer or incur, directly or indirectly, as a result of or in connection with any non-compliance with the applicable laws, rules and regulations in respect of the manufacturing or sale of edible collagen sausage casing products by any member of our Group on or before the Fulfilment Date (except as a result of any retrospective change in the law coming into force after the Fulfilment Date);
- (d) any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines which our Group may suffer or incur as a result of directly or indirectly or in connection with any loss in respect of the title defects, legality of the tenancy agreements and non-registration of tenancy agreements for properties set out in group I and group II in Appendix IV to this document (except as a result of any retrospective change in the law coming into force after the Fulfilment Date).

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.]

### **2. Litigation**

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

### **3. [●]**

### **4. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$48,000 and are payable by our Company.

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### 5. Promoter

The promoter of our Company is Ms. Zhou. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the promoters in connection with the [●] or the related transactions described in this document.

### 6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualifications
Macquarie Capital Securities Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined under the SFO)
China Merchants Securities (HK) Co., Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities (as defined under the SFO)
Ernst & Young	Certified Public Accountants
DTZ Debenham Tie Leung Limited	Property valuer
Commerce & Finance Law Firm	Registered law firm in the PRC
Conyers Dill & Pearman	Cayman Islands attorneys-at-law

### 7. Miscellaneous

- (a) Save as disclosed in this document:
  - (i) within the two years immediately preceding the date of this document:
    - (aa) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash; and
    - (bb) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.



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- (b) Our Directors confirm that there has not been any material adverse change in the financial trading position or prospects of our Group since 30 June 2009 (being the date to which the latest audited combined financial statements of our Group were made up).
- (c) Save as disclosed in this document, neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.
- (d) Save as disclosed in this document, none of the persons named in the paragraph headed “Consents of experts” is interested beneficially or non-beneficially in any shares in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any share in any member of our Group.
- (e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this document.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) Our Directors have been advised that, under Cayman Islands law, the use of a Chinese name by our Company in conjunction with our English name does not contravene Cayman Islands law.
- (h) The English text of this document shall prevail over the Chinese text.