Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code: 00829

ANNUAL REPORT
2013

CONTENTS

CORPORATE INFORMATION

Executive Directors

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

Non-executive Director

Mr. Low Jee Keong

Independent Non-executive Directors

Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

Company Secretary

Mr. Ng Yuk Yeung *FCCA CPA CFA*

Legal Advisers as to Hong Kong Laws

Loong & Yeung
Suites 2001-2005, 20/F
Jardine House
1 Connaught Place
Central
Hong Kong

Registered Office

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

Hong Kong Office

Unit 2902, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

Mainland Office

29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

Principal Bankers

Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
Bank of Communications
China Construction Bank
The Hong Kong and Shanghai
Banking Corporation

Auditors

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

INFORMATION FOR INVESTORS

Listing Information

Listing:	The Stock Exchange of Hong Kong Limited
Stock code:	829
Ticker Symbol	
Reuters:	0829.HK
Bloomberg:	829: HK Equity

Index Constituent

Hang Seng Composite Index
Hang Seng Composite Industry Index – Consumer Goods
Hang Seng Composite MidCap Index
MSCI Global Small Cap China Index

Key Dates

13 October 2009
Listed on Hong Kong Stock Exchange

17 March 2014
Announcement of 2013 Annual Results

15 May 2014 to 19 May 2014
(both days inclusive)
Closure of Register of Members
(for Annual General Meeting)

19 May 2014
Annual General Meeting

23 May 2014 to 27 May 2014
(both days inclusive)
Closure of Register of Members (for Final Dividend)

on or around 11 June 2014
Final Dividend Payment Date

Registrar & Transfer Offices

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

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

Share Information

Board lot size: 2,000 shares

Shares issued as at 31 December 2013
3,324,120,000 shares

Market capitalization as at 31 December 2013
HK$11,501,455,200

Basic earnings per share for 2013
Full year RMB23.2 cents

Dividend per share for 2013
Full year HK19.0 cents

Enquiries Contact

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Financial Controller

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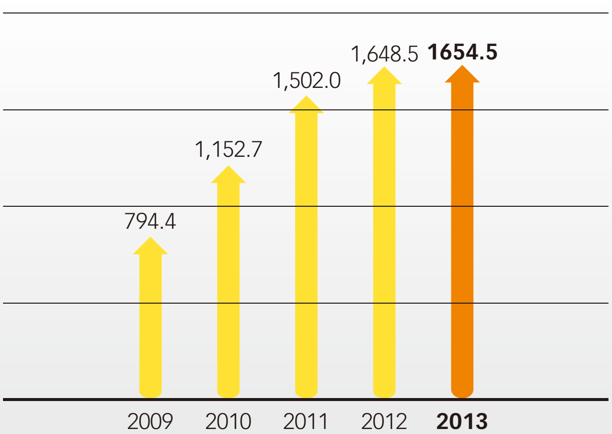
FINANCIAL HIGHLIGHTS

Financial and Operating Highlights for the year ended 31 December

(RMB million, except where otherwise stated)	2013	2012	% change
Revenue	**1,654.5**	1,648.5	+0.4
Profit attributable to Owners of the Company	**771.3**	748.2	+3.1
Basic Earnings Per Share (RMB cents)	**23.2**	22.5	+3.1
Dividend Per Share (HK cents)			
– Interim	**4.7**	4.5	+4.4
– Special (Interim)	**2.8**	1.0	+180.0
– Final	**7.0**	6.5	+7.7
– Special (Final)	**4.5**	3.3	+36.4
Cash Inflow from Operation	**467.5**	763.2	-38.7
Total Assets	**3,185.1**	2,882.6	+10.5
Inventory Turnover Day – Raw Materials (days)	**37.6**	28.7	+8.9 days
Inventory Turnover Day – FG & WIP (days)	**149.9**	74.0	+75.9 days
Trade Receivables Turnover Day (days)	**44.6**	39.0	+5.6 days
Trade Payables Turnover Day (days)	**73.6**	62.6	+11.0 days

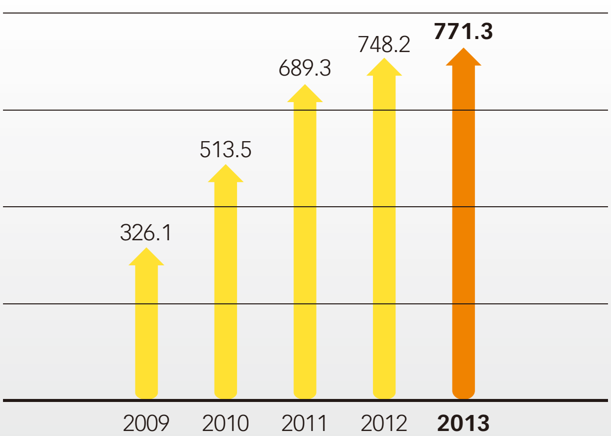
Turnover

RMB million



Profit attributable to Owners of the Company

RMB million



CHAIRMAN'S STATEMENT

Ms. Zhou Yaxian
Chairman of the Board and
President of the Company

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited ("Shenguan Holdings" or the "Company"), I would like to present the audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013 (the "Year" or the "Period").

The sluggish global economy, China's decelerating economic growth and the outbreak of H7N9 bird-flu has restricted the development of the country's meat industry in 2013. According to the National Bureau of Statistics of China, the total production volume of pork, beef, lamb and poultry was 83,730,000 tons in 2013, only increased by 1.8% as compared to 2012, grew much slower than the GDP did. Meanwhile, because of the strengthening Chinese currency and the sluggish market of developed countries such as Europe, international players has become more aggressive in entering into the Chinese market and expanding their market shares as a way out of the shrinking European demand. The sausage casing industry has faced an even more challenging market condition because sausage manufacturers had lowered their stock of raw materials to free up working capital, while the diminishing spending power in the first and second-tier cities dampened the market for sausage casings temporarily.

Yet, the Group took advantage of such a market environment during the Year and spent great effort in enhancing internal management, streamlining production process and improving efficiency, after a period of sustained capacity growth. The move enables us to adapt quickly, efficiently and effectively to market changes. Our hard work has greatly enhanced our capabilities to maintain the consistency of product quality. This has enabled us to be ready to gain an edge in the market which started to recover in the second half of 2013.

Nevertheless, the Group's growth has declined as it was inevitably affected by the broader market environment. In 2013, sales volume of the Group's sausage casing products was below expectation. Revenue from the sales of the Group's collagen sausage casings increased by 0.4% to RMB1,654.5 million, as compared with 2012. Profit attributable to owners of the Company was RMB771.3 million, representing a growth of 3.1%. The basic earnings per share of the Group were RMB23.2 cents. The Board is pleased to propose a final dividend of HK7.0 cents and a special final dividend of HK4.5 cents, which together with the interim dividend of HK4.7 cents per share and a special dividend of HK2.8 cents per share, will bring a total dividend to HK19.0 cents per share for the full year of 2013.

During the Year, we are pleased to have maintained our status as the largest manufacturer and supplier of edible collagen sausage casings in Asia, and to have strengthened our market leadership. At the same time, the Group had a breakthrough in product mix by launching new products with a higher applicability to suit the market's needs. Export sales also grew on the back of a more diversified product portfolio.

Looking ahead to 2014, China's meat industry is expected to maintain a steady growth despite the country's decelerating economic growth. The Group's production base in Guangxi enjoys excellent geographical advantages and preferential policies under the national programme of developing the country's western regions. Meanwhile, the economic development of the areas along the Xijiang River in Guangxi will be put on the agenda of the state's development plan. The Group will also seek to capture the opportunity in the proposed new maritime silk route for the 21st century between China and the ASEAN countries as well as in the proposed Guangdong-Guangxi Cooperation Zone pending government approval. The trend of accelerated urbanization is expected to continue in the long run. According to the National Bureau of Statistics of China (NBS), the country's urbanization rate is expected to increase from 52.6% in 2013 to 60% in 2020. Furthermore, targets have been set for the development of the country's meat industry in the PRC government's "Twelfth Five-year Plan": the supply of processed meat products will increase, with 17% of the country's total meat output to be processed into meat products by 2015, up from 15.1% in 2010. This will translate into a 25% increase in the production volume of meat products by 2015 when compared with that of 2010. According to news reports about the Seventh China Cold-chain Conference, the country's cold-chain industry will invest RMB7 billion to upgrade its technology and equipment. Meanwhile, the cold-chain business is predicted to grow by about 20% in 2014. The expansion of the cold-chain industry will benefit the development of the market for low temperature meat products and will foster the expansion of the market from cities to townships and rural areas. In addition, optimization of both the structure of meat industry and product portfolio are also crucial to the industry's long-term development. Furthermore, the market penetration rate of collagen sausage casing products in the PRC is far lower than that in other developed countries. Overall, we are optimistic that the demand for sausage casing products will continue to grow in the long term.

To better capture market opportunities, the Group will refocus on sales growth in 2014 and continue to invest for its long-term growth. We will maintain our advantage of being able to consistently produce safe and quality products. We will continue to closely supervise the entire process from the procurement of raw materials to the production and packaging of finished products to ensure the quality and safety.

With the newly added facilities all commenced production and able to maintain product quality, the Group will try to increase sales and market share in its home market. Meanwhile, we will step up our efforts to explore new overseas markets and strengthen sales in existing foreign markets. Overall, the Group will seek to strengthen cooperation with its customers to develop and manufacture better products to suit market's needs.

To improve cost control, the Group will continue to raise the efficiency of the production lines, enhance its energy-saving technology and increase the level of automation.

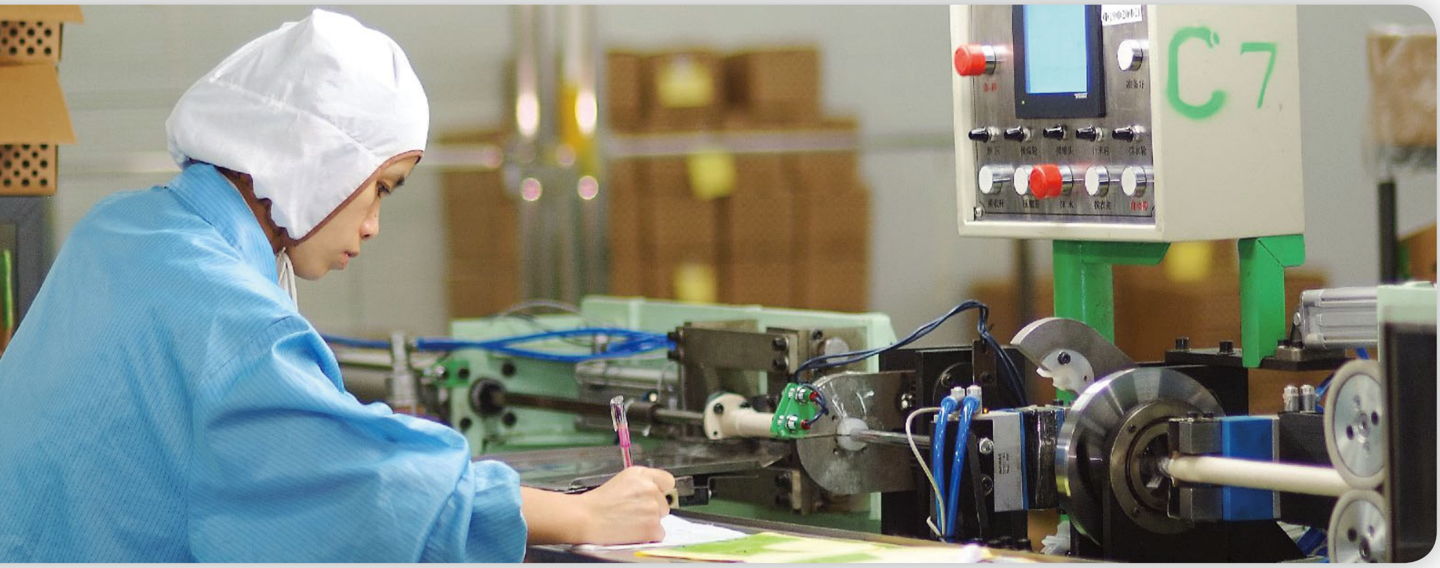
Over the past nine years, Shenguan has developed itself into the largest collagen sausage casing production enterprise in Asia with its commitment to excelling in all aspects of its business, which range from production capacity expansion to development of core competitive strengths. The Group will continue with its bold, pragmatic and innovative approach to its development while fully utilizing its core technology in collagen. This will make Shenguan's business better and stronger.

I would like to take this opportunity to express my sincere gratitude to the staff for their hard work, which has laid the strong foundation for the Group's success. I would also like to extend my gratitude to our shareholders for their continuous support to the Company. The Group will endeavor to maintain its leading position in the market and actively seek new business opportunities in order to reward its shareholders with good returns.

Zhou Yaxian
Chairman and President

Hong Kong, 17 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS



Market Review

In 2013, negative economic sentiment in major economies around the world, decelerated economic growth in China, and the effect of bird flu had deeply impacted the livestock cultivation industry in the PRC, and diminishing the overall growth of the country's meat industry. Meanwhile, competition intensified as global players competed more aggressively in emerging markets amid challenging business environment in mature economies. The strengthening Chinese currency made the country's market particularly attractive to enter.

According to the preliminary figure of the National Bureau of Statistics of China (NBS), the mainland China's gross domestic product grew at 7.7% in 2013. As compared to 2012, the country's total production volume of pork, beef, lamb and poultry rose by 1.8% in 2013, production volume of pork rose by 2.8%, much slower than the headline economic growth. In line with the industry environment, sales volume of the Group's sausage casing products was below expectation, but its growth accelerated in the second half of the year to offset the decline in the first half, thanks to the Group's increased efforts to promote its new products and enhance customer service. The improved economic conditions also contributed to the sales growth.

Government Policy

The PRC government increased the efforts to safeguard the food safety and issued series of policies of stimulating the country's demand for low temperature meat products supports the long term development of the meat industry and fosters the steady expansion of the sausage casing product market.

According to the PRC government's "Twelfth Five-year Plan", the country will increase the supply of processed meat products and subsequently 17% of the country's total meat output will be processed into meat products in 2015, up from 15.1% in 2010. This will translate into a 25% increase in the production volume of meat products by 2015 when compared with that of 2010. The proportion of western-style meat products to Chinese-style meat products is projected to change from 45:55 in 2010 to 50:50 by 2015.

In addition to the policy of increasing processed meat supply, the government will step up measures in the country's large and medium-sized cities as well as developed regions to facilitate expansion of the low temperature meat production, development of low temperature meat products and the intensive processing of meat products. It will also foster the development and production of refined meat products and quick-frozen convenient meat products. Furthermore, the government encourages the integration of the western food culture, which emphasizes nutrition and convenience, into the Chinese food culture, which is particular about the appearance, smell, taste and shape of food. It is also in the "Twelfth Five-year Plan" that the PRC government will foster the establishment of distribution system of cold-chain logistics according to the features of various kinds of product in order to effectively ensure the meat product quality. These measures are expected to promote the development of the raw meat and meat product industries.

Business and Operational Review

As the largest edible collagen protein sausage casing manufacturer in Asia, the Group continued to invest in the enhancement of its competitive strengths despite difficult market conditions.

During the Year, the Group improved the automation of production and streamlined its production process so as to capture market opportunities, while ensuring the consistency of the products' high quality. Addressing the mounting public concern over food safety globally, the Group also put great emphasis on quality assurance. Dedicated efforts were made consistently during the Year to ensure product quality and safety. The Group continued to sustain business growth with its strong brand recognition, high product quality, sizeable production scale, reliable production and advanced technology. As a result of these developments, the Group recorded a moderate sales growth for the Year.

During the Year, revenue of the Group increased by 0.4% to RMB1,654.5 million, from RMB1,648.5 million for the year ended 31 December 2012. The growth in revenue decelerated mainly because the sausage manufacturers had lowered their stock of raw materials to free up working capital. Meanwhile, negative economic sentiment has hurt spending power of consumers in the first and second tier cities, thus temporarily lower the demand for sausages. These resulted in lower than expected sales of collagen casings. The revenue growth was also hindered by the lower efficiency experienced by the Group during the transitional period to the extensive usage of whole piece of cattle skin as raw materials, and the interruption to daily operation during the installation of new heat energy technology. In view of the market situation, the Group promptly increased its efforts in strengthening business relationships with existing customers and stepped up marketing initiatives to promote sales growth in the second half. The country's improving economy in the second half of the Year also helped to boost sausage

sales, which in turn spurred the demand for sausage casing products. This resulted in an increase in the sales of sausage casing products in the second half that offset the minor decline in the first half of the year. The Group's enhanced capability to produce collagen sausage casings of stable quality enabled it to take advantage of the market growth.

Profit attributable to the owners of the Company increased by 3.1% to RMB771.3 million for 2013 from RMB748.2 million in 2012.

The Board recommends the payment of a final dividend for the Year of HK7.0 cents (2012: HK6.5 cents) per share and a special dividend for the Year of HK4.5 cents (2012: HK3.3 cents) per share. The payout ratio further increased to 64.9% (2012: 55.2%).

Product Mix

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which are used for producing western sausages. Product innovation and diversification by sausage manufacturers continues to drive the demand for sausage casings of different sizes. In the second half of the Year, the Group had a new breakthrough by launching new products with a higher applicability to suit the market's needs.

Growth in export sales also changed the product mix. During the Year, the total sales to overseas markets accounted for 6.1% of the Group's total sales revenue, rising from 5.5% a year ago. Volume of the Group's exports to the Southeast Asian countries and other emerging economies grew significantly, driving the overall growth of the export operation.

Supply of Raw Materials

The core raw material for collagen sausage casing production is cattle's inner skin. The supply of cattle's inner skin remained stable in the past few years, and is expected to remain stable going forward as the Group has established good and strong relationships with suppliers over the years. In order to maintain better quality assurance and achieve production cost-effectiveness, the Group started switching to larger pieces of cattle skin for raw material during the Year.

Cost Control

Currently, the Group owns three production bases in the districts of Fudian, Wangfu and Sifu in Wuzhou, Guangxi. During the Year, the Group continued to face cost pressure resulted from the increase in unit costs of energy and higher overheads from additional production plants.

To mitigate the rising cost pressure, the Group implemented stringent cost control, enhanced the efficiency and automation of existing production lines and optimized its energy-saving facilities during the Year. Installation of the fourth-generation heat energy system was completed on schedule in August and the benefits became manifest in the second half of the Year. The Group also capitalized on its research and development ("R&D") expertise to enrich product mix, thus maintaining profitability. The Group also strengthened its centralized procurement management to reduce procurement costs and to enhance the beneficial effect of economies of scale. The streamlined production processes, completion of the Group's production bases, relocation of the collagen extraction facilities, and commencement of the cellulose production facilities and organic fertilizer production facilities also enable further reduction of environmental protection costs for handling residual wastes and decrease in other production costs.

Technological Research & Development

The R&D of new technologies and product is a core competitive advantage of the Group. The Group participated in the preliminary stages of R&D process of the new sausage products, and provided tailor-made collagen sausage casing products according to customers' specific preferences. After more than one year of development, the Group has now developed collagen casings with a higher applicability. The Group strongly believes that it can maintain its leading position in the market with its dedication to and emphasis on R&D.

As at 31 December 2013, the Group had 31 valid patents granted by the State Intellectual Property Office. Its application for other 14 patents have been accepted by the relevant authorities pending approval. These patented technologies have enabled the Group to distinguish itself from other peers in the market, and also become the key to raising the entry barrier for competitors. The Group will continue to enhance the production technologies to reduce the production cost.

Quality Control

Quality control is another core competitive strength of the Group. It is particularly important in view of the increasing public concern over food safety. The Group undertakes strict quality control over every single production process to ensure that its products are of high quality and meet all the safety requirements before they are delivered to the customers.

The Group has passed the Assessment of ISO9001:2008 Quality Management System and ISO22000:2005 Food Safety Management System, and has obtained the Food and Drug Administration ("FDA") registration for the export of products to the United States. In addition, the production of all of the Group's products have strictly complied with the PRC national standards (GB14967–94), sausage casing manufacturing industry standards (SB/T10373–2012) and corporate standards (Q/WZSG0001S-2012), which has already been put on record. All these certifications strengthen the Group's image as a trustworthy product supplier to its customers.

The Group's examination centre for the assessment of raw materials and finished goods continues to operate efficiently to ensure product safety and quality. Currently, the examination centre can detect hazardous substances, including toxic materials such as pesticide residues, drug residues and heavy metals, etc.

Customer Relationship

The Group is committed to developing long-term relationship with its business partners. After years of cooperation with its business partners based on mutual trust, the Group has established a sophisticated customer network with long term relationships. Over the years, the Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only in the PRC, but also in various overseas markets, such as South America, Southeast Asia and the United States. During the Period, the Group continued to supply high quality sausage casing products to a number of renowned food product suppliers in the PRC.

Energy Saving

By the end of August 2013, all the production lines of the Group have adopted the new heat energy technology. With the adoption of this new technology, greater energy-saving will be achieved and operating efficiency will be enhanced.

Financial Analysis

Revenue

Revenue increased by 0.4% to RMB1,654.5 million in 2013 from RMB1,648.5 million in 2012. Although the total sales volume of collagen casings during the Year has slightly increased year-on-year, the average selling price was slightly lower because customers tends to order smaller size collagen casings during the Year due to the change of consumers' preference. The sales for the Year was adversely affected by the incidents of rotting carcasses floating in the Huangpu River, the outbreak of bird-flu and the negative economic sentiment in China.

Cost of sales

Cost of sales decreased by 0.3% to RMB687.0 million for 2013 as compared with the previous year. Cost of materials used decreased by 5.5% to RMB295.5 million in 2013 because of the extensive use of whole pieces of cattle inner layer skins, which has been proved to be more cost efficient, together with the internal production of edible cellulose to save costs. In addition, direct labour costs decreased by 10.9% to RMB105.5 million in 2013 due to the increase in automation and redeployment of employees. However, because of higher automation, utilities charges increased by 4.8% to RMB174.4 million in 2013.

Gross profit

Gross profit increased by 0.9% year on year to RMB967.5 million for the Year. In the first quarter of 2013, the extensive use of whole pieces of cattle inner layer skin for raw material was not as smooth as expected and caused some wastage, resulting in a relatively lower gross margin in the first quarter of 2013. This coupled with the rising factory overhead due to the installation of new energy system, drove down the gross profit margin of the Group to 57.6% in the first half of 2013. The situation started to improve and the gross profit margin rose to 59.1% in the second half of 2013 when the workers became better versed in the new treatment and processing procedures, efficiency of the new energy system reflected and the internal production of edible cellulose.

The Group remained committed to enhancing the efficiency of its existing production lines to meet the rising demand, optimizing its energy saving facilities to reduce costs and leveraging its research and development expertise to enrich product portfolio and maintain profitability.

Other income and gains

Other income and gains increased by 3.2% from RMB70.3 million in 2012 to RMB72.6 million in 2013. During the Year, foreign exchange gain mainly caused by RMB appreciation increased by RMB17.5 million, but the increase was partly offset by the total government grants received decreased by RMB10.5 million.

Selling and distribution costs

Selling and distribution expenses increased by 8.1% from RMB20.4 million in 2012 to RMB22.0 million in 2013. Selling and distribution expense ratio increased from 1.2% against revenue in 2012 and 1.3% in 2013.

Administrative expenses

Administrative expenses decreased by 4.1% from RMB81.2 million in 2012 to RMB77.9 million in 2013. During the Year, provision for bad debt of RMB0.5 million was recorded.

Finance costs

Finance costs increased from a credit of RMB2.2 million in 2012 to a net charge of RMB6.4 million in 2013. Government subsidy of bank borrowing interests decreased from RMB6.0 million in 2012 to RMB3.2 million in 2013.

Income tax expenses

Income tax expenses were RMB162.5 million in 2013, as compared to RMB182.0 million in 2012. The Company's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan"), enjoyed a preferential tax treatment because of its geographical presence in Western China, which resulted that the applicable tax rate for Wuzhou Shenguan was 15%.

The Group's effective tax rates were charged at 19.6% and 17.4% to the profit before tax in 2012 and 2013, respectively. The difference between the effective tax rates and the applicable tax rates was due to the withholding tax levied on dividends declared from Wuzhou Shenguan to its holding companies incorporated in Hong Kong. The decrease in effective tax rate was mainly caused by the smaller amount of dividend withholding tax for the Year because the final and final special dividends are intended to be paid out of the share premium account of Shenguan Holdings (Group) Limited.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 3.1% from RMB748.2 million in 2012 to RMB771.3 million in 2013.

Liquidity and Capital Resources

Cash and bank borrowings

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

As at 31 December 2013, the cash and bank balances including the pledged deposit amounted to RMB641.4 million, representing a decrease of RMB243.1 million from the end of 2012. Among the cash and bank balances, 98.5% was denominated in Renminbi and the remaining 1.5% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2013, the total liabilities of the Group amounted to RMB541.0 million (as at 31 December 2012: RMB537.8 million). As at 31 December 2013, the Group had a short-term bank borrowing of RMB200.0 million due within one year and denominated in Renminbi. The Group's bank borrowing was subject to a fixed interest rate at 6% per annum.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB441.4 million as at 31 December 2013 together with held-to-maturity investments of RMB56.0 million. The debt-to-equity ratio was 7.6% as at 31 December 2013 (as at 31 December 2012: 9.7%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

In 2013, RMB467.5 million was generated from the operating activities, while the net amount spent on investing activities and financing activities were RMB144.0 million and RMB502.7 million, respectively. Net cash outflow from investing activities were mainly related to the purchase of property, plant and equipment, and increase in prepayment of land lease payments. Net cash outflows from financing activities were mainly related to the combined effects of distribution of a final dividend for 2012 by the Company and an interim dividend for the six months ended 30 June 2013 by the Company.

Exchange risk exposure

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

Capital expenditure

The cash outflow for the capital expenditure used in investing activities during the Period amounted to RMB207.6 million and capital commitments as at 31 December 2013 amounted to RMB113.9 million. Both the capital expenditure and capital commitments were mainly related to the improvement and automation of production lines.

In 2014, the Company has budgeted to spend around RMB100 million to RMB150 million for capital expenditure, including mainly the capital expenditure for the outstanding payment for the new production lines, improving the production capacity of auxiliaries, diversifying products, and upgrading of production technology.

Pledge of assets

As at 31 December 2013, none of the Group's assets was pledged.

Contingent liabilities

As at 31 December 2013 and up to the date of this report, the Group was not aware of any material contingent liabilities.

Acquisitions, disposals and significant investment

During the Period, there was no material acquisition, disposal or investment by the Group.

Human resources

As at 31 December 2013, the Group had approximately 3,900 employees with a total remuneration of RMB130.7 million during the Period. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, the Group offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

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

Prospects

The Group's production base in Guangxi enjoys excellent geographical advantages and preferential policies under the national programme of developing the country's western regions. Meanwhile, the economic development of the areas along the Xijiang River in Guangxi will be put on the agenda of the state's development plan. The Group will also seek to capture the opportunity in the proposed new maritime silk route for the 21st century between China and the ASEAN countries as well as in the proposed Guangdong-Guangxi Cooperation Zone pending government approval. The sustained economic expansion of the PRC, ongoing urbanization, and rising household income will improve the living standards and change the lifestyle of mainland China's urban population. This will stimulate growth in demand for processed meat products and will facilitate substitution of collagen sausage casings for natural ones.

According to news reports about the Seventh China Cold-chain Conference, the country's cold-chain industry will invest RMB7 billion to upgrade its technology and equipment. Meanwhile, the cold-chain business is predicted to grow by about 20% in 2014. The expansion of the cold-chain industry will benefit the development of the market for low temperature meat products and will foster the expansion of the market from cities to townships and rural areas. Meanwhile, the central and local governments' support and the optimization of both the meat industry structure and product portfolio are crucial to the industry's long-term development. As such, the Group remains optimistic about the prospects of mainland China's collagen sausage casing market in 2014.

The Group has successfully completed a year-long programme to enhance internal management, streamline production process and improve efficiency. The move enables it to adapt quickly, efficiently and effectively to market changes. It also greatly improved the capability to maintain the consistency of product quality in the second half of 2013. In 2014, the Group will keep improving internal management, solve the issues arised due to the rapid development during previous years, and stabilise the business fundamentals. The Group will try to increase sales and market share in its home market. Meanwhile, it will step up efforts to explore new overseas markets and strengthen sales in existing foreign markets. The Group will seek to strengthen cooperation with its customers to develop and manufacture better products to suit market's needs.

Technical support has become more important as part of the manufacturing industry's customer service. In 2014, the Group plans to expand the customer service team and provide necessary training to them so that the team will be able to provide better after-sales services to the customers.

In addition, the Group will continue to improve production efficiency and minimize operation costs by reviewing every procedure of its production process and enhancing new cost control measures. Key performance indicators will be established for every major procedure, so that the production efficiency of each of them can be assessed.

The Group will also enhance its internal solid waste handling process to reduce environmental protection expenses. The Group will raise the utilization rate of its fertilizer production facilities, which has commenced operation since 2012. These facilities make use of the cattle's skin fragments, residual collagen and residual sausage casings to produce an organic fertilizer, achieving the purposes of saving environmental protection expenses and comprehensive utilisation.

Edible cellulose is an important raw material used for producing collagen casings. In order to ensure stable supply and quality of that raw material, the Group has started to produce edible cellulose internally. In 2014, the Group will continue to expand the production capacity of edible cellulose, so that the internal needs will be fully satisfied, and in the long run, these products can be sold to external parties to generate additional revenue.

The Group is confident that its investment in business expansion and operation improvement will help reinforce its leading position and generate good returns to its shareholders.

Corporate Governance Practices

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, adequate disclosure and accountability to all shareholders.

The Company's corporate governance practices are based on the code provisions as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Save as disclosed in this Corporate Governance Report, the Board considered that the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the Year.

Details of the Company's corporate governance are summarized below.

Board of Directors

Composition

The Board currently comprises nine Directors including five executive Directors, one non-executive Director and three independent non-executive Directors:

Executive Directors:

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

Non-Executive Director:

Mr. Low Jee Keong

Independent Non-Executive Directors:

Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees. All Board members have separate and independent access to the Company's management to fulfill their duties, and upon reasonable request, to seek independent professional advice under appropriate circumstances and at the Company's expenses. All Directors also have access to the company secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. Meeting agenda accompanied by relevant Board/committee papers are distributed to the Directors/committee members with reasonable notice in advance of a Board meeting. Minutes of board meetings and meetings of board committees, which recorded in sufficient detail the matters considered by the Board and decisions reached thereat, including any concerns raised or dissenting views expressed by any Director, are kept by the company secretary and open for inspection by the Directors.

Key information regarding the Directors' academic and professional qualifications and other appointments are set out in the section headed "Directors and Senior Management" of this report.

During the Period, the Board maintained a high level of independence, with one-third of the Board comprised of independent non-executive Directors, who had exercised independent judgments. The independent non-executive Directors are expressly identified in all corporate communications whenever the names of the Directors are disclosed.

Board Meetings and Attendance

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. During the Period, the Board held 5 meetings and the individual attendance of the Directors at the Board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	4/5
Ms. Cai Yueqing	5/5
Mr. Shi Guicheng	5/5
Mr. Ru Xiquan	5/5
Mr. Mo Yunxi	5/5
Mr. Low Jee Keong	5/5
Mr. Tsui Yung Kwok	5/5
Mr. Meng Qinguo	5/5
Mr. Yang Xiaohu	5/5

Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent to the Company.

Chairman and Chief Executive

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

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

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

Appointment, Re-election and Removal of Directors

The Company has established the Nomination Committee on 19 September 2009. The Nomination Committee has from time to time identified individuals suitably qualified to become Board members and make recommendations to the Board. The main consideration in selecting candidates for directorships is whether their characters, qualifications and experiences are appropriate for the businesses of the Group.

Save and except for Ms. Cai Yueqing and Mr. Mo Yunxi, each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years commencing from 13 October 2012 and may be terminated by either party by giving not less than three months' prior written notice.

Ms. Cai Yueqing, an executive Director, has entered into a service contract with the Company commencing from 13 October 2013 to 31 May 2014 and may be terminated by either party by giving not less than three months' prior written notice.

Mr. Mo Yunxi, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 16 May 2012 and may be terminated by either party by giving not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 13 October 2013 and may be terminated by either party by giving at least three months' written notice.

In accordance with Article 84 of the articles of association (the "Articles") of the Company, at each annual general meeting, at least one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall 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.

Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Low Jee Keong will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Board Diversity Policy

In view of the introduction of the new code provision A.5.6 of the Code regarding policy concerning diversity of board members effective on 1 September 2013, in August 2013, the nomination committee of the Company has adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to diversity of members of the Board, which is summarised below:

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The nomination committee works to ensure a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and objectives. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Model Code Set Out in Appendix 10 to the Listing Rules

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

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

Corporate Governance Duties

The Board is responsible for performing the corporate governance duties as set out in code provision D.3.1 of the Code. During the Year, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

Induction and Professional Development

All newly appointed Directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills. All Directors including Ms. Zhou Yaxian, Ms. Cai Yueqing, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi, Mr. Low Jee Keong, Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu, have participated in continuous professional development to develop and refresh their knowledge and skills and provided their training records for the Year to the Company.

Supply of and Access to Information

In respect of regular Board meeting, and so far as practicable in all other cases, an agenda accompanied by the relevant Board papers are sent to all Directors in a timely manner and at least 3 days before the intended date of a Board meeting.

All Directors are entitled to have access to Board papers, minutes and related materials.

Audit Committee

The Company established an audit committee (the "Audit Committee") on 19 September 2009 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, reappointment and removal of external auditor, review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, develop and implement policy on the engagement of an external auditor to supply non-audit services and monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and significant financial reporting judgments contained in them. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Tsui Yung Kwok who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee. The Audit Committee shall meet at least twice a year.

The terms of reference of the Audit Committee is available on the website of the Stock Exchange and the Company to comply with the Code.

During the Period, the Audit Committee had reviewed the 2012 final results, the 2013 interim results of the Group and the Group's internal controls for the Period. The Group's final results for the Period had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and complies with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held 3 meetings during the Period. Details of the attendance of the Audit Committee meetings are as follows:

	Attendance/ Meeting held
Mr. Tsui Yung Kwok *(Chairman)*	3/3
Mr. Meng Qinguo	3/3
Mr. Yang Xiaohu	3/3

Auditors' Remuneration

During the Period, the fees incurred for audit and non-audit services provided by the auditors to the Group are set out as follows.

Type of services	**Fee paid/payable** *RMB'000*
Non-audit services	900
Audit services	1,937
	2,837

Nomination Committee

The Company established a nomination committee (the "Nomination Committee") pursuant to a resolution of the Directors passed on 19 September 2009. The primary duties of the Nomination Committee are to review the structure, size and composition (including gender, age, cultural and educational background, professional experience, length of service, skills, knowledge and experience) of the Board, identify individuals suitably qualified to become Board member, assess the independence of independent non-executive Directors and review the Board Diversity Policy and the progress on achieving the objectives set for implementing such policy. A summary of the Board Diversity Policy, which is adopted during the year, is set out in the section headed "Board Diversity Policy" in this Corporate Governance Report. The Nomination Committee consists of Ms. Zhou Yaxian, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Ms. Zhou Yaxian is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, assessing the independence of the independent non-executive Directors, reviewing the Company's Board Diversity Policy and the progress on achieving the objectives set for implementing such policy, and other related matters.

The terms of reference of the Nomination Committee was revised on 19 March 2012 and 19 August 2013 and is available on the website of the Stock Exchange and the Company to comply with the Code.

The Nomination Committee held 1 meeting during the Period. Details of the attendance of the Nomination Committee meeting are as follows:

	Attendance/ Meeting held
Ms. Zhou Yaxian *(Chairman)*	1/1
Mr. Meng Qinguo	1/1
Mr. Yang Xiaohu	1/1

At the meeting, the Nomination Committee reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive Directors, formulated the Board Diversity Policy and recommended to the Board for approval and other related matters of the Company.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") pursuant to a resolution of the Directors passed on 19 September 2009 in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee are to consult the chairman of the Board about their remuneration proposals for other executive Directors, make recommendation to the Board on the Company's remuneration policy and structure for all Directors' and senior management and make recommendation to the Board on the remuneration packages of individual Directors' and senior management. The Remuneration Committee comprises Ms. Zhou Yaxian, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Meng Qinguo is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once every year to discuss the remuneration packages and related matters in relation to the Directors and the senior management. No executive Director is allowed to be involved in deciding his/her own remuneration.

The terms of reference of the Remuneration Committee is available on the website of the Stock Exchange and the Company to comply with the Code.

The Remuneration Committee held 1 meeting during the Year. Details of the attendance of the Remuneration Committee meetings are as follows:

	Attendance/ Meeting held
Mr. Meng Qinguo *(Chairman)*	1/1
Ms. Zhou Yaxian	1/1
Mr. Yang Xiaohu	1/1

At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages for the years 2012 and 2013 and performance of the Directors for 2013.

Remuneration of Directors and Senior Management

The Group paid or accrued total Directors' remuneration amounts of approximately RMB3,997,000, RMB1,700,000, RMB1,708,000, RMB1,708,000, RMB1,707,000, RMB68,000, RMB180,000, RMB180,000 and RMB180,000 to Ms. Zhou Yaxian, Ms. Cai Yueqing, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi, Mr. Low Jee Keong, Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu respectively, for the Year.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2013, there was no arrangement in which the Directors waived their remuneration.

Senior management's remuneration payment of the Group in the Year falls within the following bands:

	Number of Individuals
RMB1,000,000 or below	1
RMB1,000,001 to RMB2,000,000	1

Directors' and Auditors' Responsibility for the Financial Statements

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the Year. The auditors to the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the Year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

Financial Controller

The financial controller of the Company (the "Financial Controller") is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with the Companies Ordinance, the Listing Rules and other relevant laws and regulations. The Financial Controller reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Controller will review the control of financial risks of the Group and provide advices thereon to the Board.

Company Secretary

Mr. Ng Yuk Yeung has been appointed as the company secretary of the Company (the "Company Secretary") with effect from 19 September 2009. The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and inside information.

The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for supervising and managing the Group's investors relationship. The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

Internal Control

The Board has overall responsibility to maintain a sound and effective internal control of the Company to safeguard the shareholders' investments and the Company's assets. The Company will continue to review its internal control function on a regular basis.

The management of the Group has conducted a review during the Period on the effectiveness of the system of internal control of the Group, covering all material controls including financial, operational, compliance controls and risks management functions with recommendations for improvement. The recommendations had been reviewed by the Audit Committee and the Board. The Board had adopted the recommendations to enhance the Group's system of internal control.

Investor Relations

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels such as seminars with the media, analysts and fund managers. Designated senior management holds regular dialogue with institutional investors and analysts which enables them to keep abreast of the Group's latest developments. In addition, the Group's website presents the most updated information and the status of the business development of the Group.

During the Year, the Company did not make any significant changes in its memorandum and articles of association.

General Meetings with Shareholders

The 2013 annual general meeting ("2013 AGM") was held on 15 May 2013. The attendance record of the Directors at the 2013 AGM is as follows:

	Attendance/ General Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	1/1
Ms. Cai Yueqing	1/1
Mr. Shi Guicheng	1/1
Mr. Ru Xiquan	1/1
Mr. Mo Yunxi	1/1
Mr. Low Jee Keong	1/1
Mr. Tsui Yung Kwok	1/1
Mr. Meng Qinguo	1/1
Mr. Yang Xiaohu	1/1

The Company's external auditor also attended the 2013 AGM.

Communication with Shareholders

The Company and the senior management recognise the responsibility to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation.

The forthcoming annual general meeting of the Company will be held on 19 May 2014.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirement.

The Board and senior management also recognise the responsibility of safeguarding the interest of shareholders of the Company. The Company reports its financial and operating performance to shareholders through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Company's website http://www.shenguan.com.cn.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Hong Kong Office of the Company whose contact details are as follows:

Shenguan Holdings (Group) Limited
Unit 2902, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong
Email: ngyy@shenguan.com.cn
Tel No.: 2893 5802
Fax No.: 2891 5998

Procedures for Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings by Shareholders

Pursuant to Article 64 of the Articles of the Company, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transactions of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) may do so in the same manner.

Pursuant to Article 85 of the Articles of the Company, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders may also contact the Company through the details as mentioned in the section headed "Procedures for Directing Shareholders' Enquiries to the Board" above for procedures for putting forward proposals at general meetings.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhou Yaxian
Chairman of the Board and President of the Company

Aged 54, Ms. Zhou is a founder of the Group and a director of all of the subsidiaries of the Company. She is primarily responsible for the Group's overall strategic planning, technology and business management. Ms. Zhou has nearly 34 years of experience in the collagen sausage casing industry. Before founding the 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制品廠) from 1979 to 1989 and was employed by Wuzhou Protein Casing Factory (梧州市蛋白腸衣廠) ("Wuzhou Protein Factory") in 1989, mainly responsible for technology development. She was appointed the head of Wuzhou Protein Factory and the Deputy General Manager of Guangxi Wuzhou Zhongheng Group Co., Ltd. (廣西梧州中恒集團股份有限公司) 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, 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, and the "Technological Leaders in China Meat Industry" (中國肉類產業科技領軍人物) by the China Meat Association (中國肉類協會) in 2012. She was appointed as a Director on 24 February 2009 and redesignated as an executive Director, and appointed as the Chairman of the Board on 19 September 2009.

Ms. Zhou is also a director of Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan"), Glories Site Limited ("Glories Site"), Xian Sheng Limited ("Xian Sheng") and Rich Top Future Limited ("Rich Top Future"), all are companies having an interest in the shares of the Company.

Ms. Cai Yueqing

Vice President and Executive Director

Aged 58, Ms. Cai is primarily responsible for the Group's production management. She has nearly 21 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

Vice President and Executive Director

Aged 50, 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 the Group's machinery and equipment management. He is a mechanical engineer and has nearly 21 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

Vice President and Executive Director

Aged 51, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 23 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 in July 1989. He obtained the certificate of accounting professional issued by the Wuzhou Finance Bureau in November 2001. 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.

Mr. Mo Yunxi

Vice President and Executive Director

Aged 45, Mr. Mo is primarily responsible for the Group's product and technology developments. He has long been engaged in product development and has nearly 21 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. He was appointed as a Director on 16 May 2012.

Non-Executive Director

Mr. Low Jee Keong

Aged 48, Mr. Low's Chinese name 劉子強 is an unofficial name. He is primarily responsible for the Group's export business. Mr. Low has nearly 21 years of experience in the collagen sausage casing industry. Before founding the Group, Mr. Low, through LJK Frozen SDN. BHD. ("LJK") (formerly known as Exceltech Enterprise SDN. BHD.), 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 the Group and has been a director of Wuzhou Shenguan since 2004. Mr. Low has not been involved in the 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 the business operations. He is also a director of Full Win Consultants Limited and Excel Gather Limited, both are subsidiaries of the Company. He was appointed as a Director on 19 September 2009. Mr. Low is a director of Rich Top Future which has an interest in the share of the Company.

Independent Non-executive Directors

Mr. Tsui Yung Kwok

Aged 45, Mr. Tsui 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 20 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 has also served as an independent non-executive director of SITC International Holdings Company Limited (Hong Kong Stock Code: 01308), 361 Degrees International Limited (Hong Kong Stock Code: 01361) and Cabbeen Fashion Limited (Hong Kong Stock Code: 02030) since September 2010, September 2012 and February 2013, respectively, the shares of which are all listed on the Stock Exchange. 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

Aged 56, Mr. Meng 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 was 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) until 29 February 2012, and he had been appointed as special legal consultant since 1 March 2012, 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.

Mr. Yang Xiaohu

Aged 39, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 15 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. Wen Jinpei
Vice President

Aged 52, Mr. Wen is primarily responsible for the Group's human resources, logistics, the merchandising and tendering of projects, marketing and development plans. Mr. Wen graduated with a bachelor degree in Engineering from Guangdong Ocean University in July 1982 and was named Senior Engineer in technological engineering in 1996. He was responsible for plan control, economy management, state-owned and collective assets management as well as technology management. Mr. Wen was the Deputy Officer of Wuzhou Planning Committee (梧州市計劃委員會), Deputy Officer of Wuzhou City Collective Industry Association (梧州市城鎮集體工業聯社), Deputy Chief of Wuzhou Medicinal Chemistry Bureau (梧州市醫藥化學工業局), Deputy Officer of Wuzhou Economic and Commerce Committee (梧州市經濟貿易委員會), Deputy Officer of Wuzhou People's Government Asset Management Committee (梧州市人民政府國有資產監督管理委員會) and Deputy Chief of Wuzhou Technology Bureau (梧州市科學技術局) from 1995 to 2010. He has been the Vice President of Wuzhou Shenguan since October 2010.

Mr. Ng Yuk Yeung
Financial Controller

Aged 40, Mr. Ng joined the Company in February 2009 and is responsible for supervising the financial reporting, corporate finance and investors relationship. Mr. Ng has nearly 18 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 the Company.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Group's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 105.

An interim dividend of HK4.7 cents per ordinary share and a special dividend of HK2.8 cent per ordinary share were paid on 24 September 2013. The directors recommend the payment of a final dividend of HK7.0 cents per ordinary share and a special dividend of HK4.5 cents per ordinary share in respect of the year to shareholders on the register of members on 27 May 2014. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend and the special dividend will be paid on or around 11 June 2014.

Closure of Register of Members

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 19 May 2014 (Monday), the register of members of the Company will be closed from 15 May 2014 (Thursday) to 19 May 2014 (Monday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 14 May 2014 (Wednesday). For determining entitlement to the final and special dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 23 May 2014 (Friday) to 27 May 2014 (Tuesday), both dates inclusive. The record date will be 27 May 2014 (Tuesday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 22 May 2014 (Thursday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final and special dividend (if approved at the forthcoming annual general meeting), all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above respectively.

Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 106. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Share Capital and Share Options

There were no movements in either the Company's authorised or issued share capital or share option during the Year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Reserves

For the year ended 31 December 2013, the profit attributable to owners of the Company amounted to RMB771,277,000. The Company's reserves available for distribution comprise share premium and retained profits. Under the Companies Law of the Cayman Islands, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2013, the Company had distributable reserves amounting to RMB1,219,968,000, of which RMB301,821,000 has been proposed as a final dividend and the special dividend for the Year, calculated in accordance with statutory provisions applicable in the Cayman Islands.

Details of movements in the reserves of the Company and the Group during the Year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Charitable Contributions

During the year, the Group made charitable contributions totalling RMB3,618,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 54.3% of the total sales for the year and sales to the largest customer included therein amounted to 36.1%. Purchases from the Group's five largest suppliers accounted for less than 30% of total purchases for the Year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Emolument Policy

The Remuneration Committee was established for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the paragraph headed ''Share option scheme'' below.

Directors

The Directors of the Company during the year were:

Executive Directors:

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

Non-executive Director:

Mr. Low Jee Keong

Independent Non-executive Directors:

Mr. Tsui Yung Kwok
Mr. Meng Qinguo
Mr. Yang Xiaohu

In accordance with Article 84 of the articles of association (the ''Articles'') of the Company, at each annual general meeting one-third of the Directors for the time being, (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall 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 non-executive Director and independent non-executive Directors are appointed for periods of three years and two years, respectively.

The Company has received annual confirmations of independence from Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu, and as at the date of this report, the Company still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 24 to 27 of this report.

Directors' Service Contracts

Save and except for Ms. Cai Yueqing and Mr. Mo Yunxi, each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years commencing from 13 October 2012 and may be terminated by either party by giving not less than three months' prior written notice.

Ms. Cai Yueqing, an executive Director, has entered into a service contract with the Company commencing from 13 October 2013 to 31 May 2014 and may be terminated by either party by giving not less than three months' prior written notice.

Mr. Mo Yunxi, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 16 May 2012 and may be terminated by either party by giving not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 13 October 2013 and may be terminated by either party by giving at least three months' written notice.

In accordance with Article 84 of the Articles of the Company, at each annual general meeting, at least one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall 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.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

The Directors' emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

Save as disclosed in note 35 to the financial statements and in the section headed "Continuing Connected Transactions" in this report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 31 December 2013, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and The Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

Name of Director	**Capacity/Nature**	**No. of shares**	**Approximate percentage of issued share capital of the Company**
Ms. Zhou Yaxian ("Ms. Zhou")	Interest of controlled corporation *(Note 2)*	2,155,980,000(L)	64.85%
	Beneficial owner	200,000(L)	0.01%
Mr. Low Jee Keong ("Mr. Low")	Interest of controlled corporation *(Note 4)*	78,936,000(L)	2.37%
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	800,000(L)	0.02%
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	800,000(L)	0.02%
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	800,000(L)	0.02%
Mr. Mo Yunxi	Beneficial owner *(Note 3)*	800,000(L)	0.02%

2. Interests and Short Position in the Underlying Shares

Name of Director	**Capacity/Nature**	**No. of shares**	**Approximate percentage of issued share capital of the Company**
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	1,200,000(L)	0.04%
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	1,200,000(L)	0.04%
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	1,200,000(L)	0.04%
Mr. Mo Yunxi	Beneficial owner *(Note 3)*	1,200,000(L)	0.04%

3. Long Position in the Ordinary Shares of Associated Corporations

Name of Director	Name of the associated corporation	Capacity/Nature	No. of shares held/amount contributed to issued share capital	Approximate percentage of interest in the associated corporation
Ms. Zhou	Rich Top Future	Interest of controlled Corporation *(Note 2)*	65,454	65.45%
Mr. Low	Rich Top Future	Interest of controlled Corporation *(Note 4)*	20,835	20.84%

Notes:

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

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 is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou is a director of each of Hong Kong Shenguan, Glories Site, Xian Sheng and Rich Top Future.

3. Interests in the options granted on 13 October 2009 under the share option scheme of the Company. For further details, please refer to the section headed "Share option scheme" below.

4. Mr. Low holds 100% interest in Wealthy Safe Management Limited ("Wealthy Safe"), which holds 78,936,000 Shares. Therefore, Mr. Low is deemed or taken to be, interested in all the Shares held by Wealthy Safe for the purpose of the SFO. Mr. Low holds 100% interest in Brighten Lane Limited, which holds approximately 20.84% interest in Rich Top Future.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executives of the Company had registered any interests or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company

As at 31 December 2013, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity/Nature	No. of shares	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	1,904,240,000(L)	57.28%
Xian Sheng	Beneficial owner	248,040,000(L)	7.46%
Glories Site	Interest of controlled Corporation *(Note 2)*	1,904,240,000(L)	57.28%
Hong Kong Shenguan	Interest of controlled Corporation *(Note 3)*	2,152,280,000(L)	64.74%
	Beneficial owner	3,700,000(L)	0.11%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse *(Note 4)*	2,156,180,000(L)	64.85%

Notes:

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

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

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

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

Save as disclosed above, at 31 December 2013, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Competing Interests

None of the Directors and their associates, and the substantial shareholders had any interests in any business, which competed with or might compete with the business of the Group.

The Board has established a committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review on an annual basis of the non-competition undertakings (the "Non-competition Undertakings") given by Ms. Zhou, Mr. Low and Mr. Wei Cheng in three deeds of non-competition respectively entered into by Ms. Zhou, Mr. Low and Mr. Wei Cheng, all dated 19 September 2010. Ms. Zhou, Mr. Low and Mr. Wei Cheng confirmed that (a) they have provided all information necessary for the enforcement of the Non-competition Undertakings as requested by the Committee from time to time; and (b) from the effective date of their deeds of non-competition and up to 31 December 2013, they had complied with the Non-competition Undertakings. The Committee was not aware of any non-compliance with the Non-competition Undertakings given by Ms. Zhou, Mr. Low and Mr. Wei Cheng during the same period.

Share Option Scheme

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the ''Scheme'') on 19 September 2009 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the Shares to, inter alia, any employees (full-time or part-time), directors, consultants and advisors or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 13 October 2009 and shall be valid and effective for a period of ten years commencing on 19 September 2009, subject to the early termination provisions contained in the Scheme.

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 the Company on acceptance of the offer for the grant of an option is HK$1.00. The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Stock Exchange for less than 5 trading days, the issue price shall be used as the closing price for any trading day fall within the period before the date of listing of the Company's shares (the "Listing Date").

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the Shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issue at any time.

The total number of securities available for issue under the Scheme as at the date of this report was 315,880,000 Shares which represented approximately 9.5% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the 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.

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	At 1 January 2013 (Number of share options)	Granted during the year	Exercised during the year	Expired/ Forfeited during the year	At 31 December 2013	Date of grant of share options	Vesting period of share options*	End of exercise period	Adjusted exercise price of share options** *HK$ per share*	Adjusted share price as at the date of grant of the share options*** *HK$ per share*
Directors										
Ms. Cai Yueqing	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000					
Mr. Shi Guicheng	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000					
Mr. Ru Xiquan	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000					
Mr. Mo Yunxi	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000					
	4,800,000	–	–	–	4,800,000					
Other employees										
In aggregate	280,000	–	–	–	280,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	800,000	–	–	–	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	800,000	–	–	–	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	800,000	–	–	–	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	3,080,000	–	–	–	3,080,000					
	7,880,000	–	–	–	7,880,000					

Notes to the table of share options outstanding during the year:

* *The vesting period of the share options is from the date of grant until the commencement of the exercise period. Such share options will only become vested upon expiry of the relevant vesting period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The price shown above have been adjusted to reflect the bonus issue in 2011.*

*** *The adjusted share price of the Company disclosed as at the date of grant of the share options was the closing price as quoted on The Stock Exchange on 13 October 2009, which is the Listing Date adjusted to reflect the bonus issue in 2011.*

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Further details of the Scheme are disclosed in note 29 to the financial statements.

Contract of Significance

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

Connected Transactions

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Continuing Connected Transactions

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year:

(i) Transactions with Wuzhou Junye Printing Material

On 2 December 2011, Wuzhou Shenguan, as purchaser, and Wuzhou Junye Trademark Printing Material Co., Ltd. ("Wuzhou Junye Printing Material"), as seller, entered into a sale and purchase agreement for the sale of inner packaging materials to the Group for a term ending on 31 December 2014. The purchases by the Group from Wuzhou Junye Printing Material under the said agreement for the year amounted to RMB22,825,000 and the annual cap set in the said agreement for the year is RMB35,250,000.

Wuzhou Junye Printing Material is owned by Mr. Sha, the spouse of Ms. Zhou, as to 99.2% and by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, as to 0.8%. Ms. Zhou is a Director and a controlling shareholder of the Company. Wuzhou Junye Printing Material is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(ii) Transactions with Wuzhou Zhongbo Packaging Co., Ltd.

On 2 December 2011, Wuzhou Shenguan, as purchaser, and Wuzhou Zhongbo Packaging Co., Ltd. ("Wuzhou Zhongbo Packaging"), as seller, entered into a sale and purchase agreement for the sale of inner packaging materials to the Group for a term ending on 31 December 2014. The purchases by the Group from Wuzhou Zhongbo Packaging under the said agreement for the year amounted to RMB7,091,000 and the annual cap set in the said agreement for the year is RMB8,650,000.

Wuzhou Zhongbo Packaging is owned by Mr. Sha, the spouse of Ms. Zhou, as to 86.67% and by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, as to 13.33%. Ms. Zhou is a Director and a controlling shareholder of the Company. Wuzhou Junye Printing Material is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(iii) Transactions with LJK Frozen SDN. BHD (formerly known as "Exceltech Enterprise SDN. BHD.")

On 2 December 2011, LJK Frozen SDN. BHD ("LJK"), as purchaser, and Wuzhou Shenguan, as seller, entered into a sale and purchase agreement for the sale of the Group's products for a term ending on 31 December 2014. The sales from the Group to LJK under the said agreement for the year amounted to USD1,457,000 and the annual cap set in the said agreement for the year is USD2,060,000.

LJK is owned by Mr. Low, a Director, as to 80% and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(iv) Transactions with Ample Company LLC

On 2 December 2011, Ample Company LLC ("Ample"), as purchaser, and Wuzhou Shenguan, as seller, entered into a sale and purchase agreement for the sale of the Group's products for a term ending on 31 December 2014. The sales from the Group to Ample under the said agreement for the year amounted to USD1,758,000 and the annual cap set in the said agreement for the year is USD2,500,000 after the supplemental agreement was entered into Ample and Wuzhou Shenguan on 20 December 2012.

Ample is an entity registered in the U.S. and is owned by Mr. Wei Cheng, as to 50% and Mr. Wei Cheng's wife, as to 50%. Mr. Wei is a director of subsidiaries of the Company. Ample is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

For further details of the transactions stated in (i), (ii), (iii) and (iv) above, please refer to the announcement issued by the Company on 2 December 2011. For the revision of the annual cap of the transaction stated in (iv) above, please refer to the announcement issued by the Company on 20 December 2012.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Related Party Transaction

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 35(a) and (c) to the financial statements are "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules but are exempted from the reporting, announcement or independent shareholders' approval requirements under the Listing Rules, and the related party transactions disclosed in note 35(b) to the financial statements are not regarded as connected transactions or continuing connected transactions under the Listing Rules.

Corporate Governance

The Company has applied the code provisions set out in the Code contained in Appendix 14 to the Listing Rules. The Company has complied with the code provisions of the Code for the year ended 31 December 2013, save for the exceptions explained in the Corporate Governance Report in this report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhou Yaxian
Chairman

Hong Kong
17 March 2014

EY 安永

To the shareholders of Shenguan Holdings (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
17 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	4	**1,654,492**	1,648,477
Cost of sales		**(687,010)**	(689,255)
Gross profit		**967,482**	959,222
Other income and gains	4	**72,597**	70,326
Selling and distribution expenses		**(22,039)**	(20,385)
Administrative expenses		**(77,860)**	(81,201)
Finance costs, net	5	**(6,360)**	2,239
PROFIT BEFORE TAX	6	**933,820**	930,201
Income tax expense	9	**(162,543)**	(182,018)
PROFIT FOR THE YEAR		**771,277**	748,183
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(10,899)**	(2,101)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**760,378**	746,082
Profit attributable to owners of the Company	10	**771,277**	748,183
Total comprehensive income attributable to owners of the Company	10	**760,378**	746,082
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		
Basic (RMB cents per share)		**23.2**	22.5
Diluted (RMB cents per share)		**23.2**	22.5

Details of the dividends for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,405,575**	1,243,726
Prepaid land lease payments	14	**115,634**	106,290
Patent	15	**–**	–
Contract in progress	17	**98,082**	91,012
Held-to-maturity investments	18	**–**	53,193
Deferred tax assets	19	**31,000**	13,906
Long term prepayments		**28,828**	46,398
Total non-current assets		**1,679,119**	1,554,525
CURRENT ASSETS			
Inventories	20	**500,306**	205,496
Trade receivables	21	**218,075**	185,994
Prepayments, deposits and other receivables	22	**90,145**	52,127
Held-to-maturity investments	18	**55,983**	–
Tax recoverable		**17**	19
Pledged deposit	23	**–**	164,000
Cash and cash equivalents	23	**641,412**	720,460
Total current assets		**1,505,938**	1,328,096
CURRENT LIABILITIES			
Trade payables	24	**108,539**	40,671
Other payables and accruals	25	**170,305**	205,754
Derivative financial instruments	26	**–**	2,385
Interest-bearing bank borrowings	27	**200,000**	167,160
Tax payable		**22,255**	23,709
Total current liabilities		**501,099**	439,679
NET CURRENT ASSETS		**1,004,839**	888,417
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,683,958**	2,442,942
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**–**	60,000
Deferred income		**38,029**	36,288
Deferred tax liabilities	19	**1,871**	1,871
Total non-current liabilities		**39,900**	98,159
Net assets		**2,644,058**	2,344,783

	Notes	2013 RMB'000	2012 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**28,584**	28,584
Reserves	30(a)	**2,615,474**	2,316,199
Total equity		**2,644,058**	2,344,783

Zhou Yaxian
Director

Ru Xiquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the Company									
	Notes	Issued capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000 (note30(a)(i))	Reserve funds RMB'000 (note30(a)(ii))	Capital reserves RMB'000	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note30(a)(iii))	Retained profits RMB'000	Total RMB'000
At 1 January 2012		28,568	1,167,543	59	187,996	4,758	4,743	(62,036)	(264,343)	838,184	1,905,472
Profit for the year		–	–	–	–	–	–	–	–	748,183	748,183
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(2,101)	–	–	(2,101)
Total comprehensive income for the year		–	–	–	–	–	–	(2,101)	–	748,183	746,082
Issue of shares in connection with the exercise of share options	28	16	4,977	–	–	–	(1,313)	–	–	–	3,680
Equity-settled share option arrangements	29	–	–	–	–	–	1,144	–	–	–	1,144
Final 2011 dividend		–	–	–	–	–	–	–	–	(161,973)	(161,973)
Interim 2012 dividend	11	–	–	–	–	–	–	–	–	(122,418)	(122,418)
Interim special 2012 dividend	11	–	–	–	–	–	–	–	–	(27,204)	(27,204)
Transfer from retained profits		–	–	–	40,084	–	–	–	–	(40,084)	–
At 31 December 2012		28,584	1,172,520*	59*	228,080*	4,758*	4,574*	(64,137)*	(264,343)*	1,234,688*	2,344,783

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013

		Attributable to owners of the Company									
	Notes	Issued capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000 (note30(a)(i))	Reserve funds RMB'000 (note30(a)(ii))	Capital reserves RMB'000	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note30(a)(iii))	Retained profits RMB'000	Total RMB'000
At 1 January 2013		28,584	1,172,520	59	228,080	4,758	4,574	(64,137)	(264,343)	1,234,688	2,344,783
Profit for the year		–	–	–	–	–	–	–	–	771,277	771,277
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(10,899)	–	–	(10,899)
Total comprehensive income for the year		–	–	–	–	–	–	(10,899)	–	771,277	760,378
Equity-settled share option arrangements	29	–	–	–	–	–	623	–	–	–	623
Final 2012 dividend	11	–	–	–	–	–	–	–	–	(174,680)	(174,680)
Final special 2012 dividend	11	–	–	–	–	–	–	–	–	(88,684)	(88,684)
Interim 2013 dividend	11	–	–	–	–	–	–	–	–	(124,307)	(124,307)
Interim special 2013 dividend	11	–	–	–	–	–	–	–	–	(74,055)	(74,055)
Transfer from retained profits		–	–	–	89,449	–	–	–	–	(89,449)	–
At 31 December 2013		28,584	1,172,520*	59*	317,529*	4,758*	5,197*	(75,036)*	(264,343)*	1,454,790*	2,644,058

* *These reserve accounts comprise the consolidated reserves of RMB2,615,474,000 (2012: RMB2,316,199,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**933,820**	930,201
Adjustments for:			
Interest on bank loans	5	**10,193**	7,280
Bank interest income	4	**(13,407)**	(8,779)
Interest income from held-to-maturity investments	4	**(2,790)**	(3,636)
Gain on disposal of financial assets at fair value through profit or loss	4	**(11,897)**	(20,942)
Gain on disposal of an available-for-sale investment	4	**–**	(6)
Fair value losses on derivative financial instruments, net – transactions not qualifying as hedges	6	**2,906**	2,385
Loss on disposal of items of property, plant and equipment	6	**140**	3
Depreciation	13	**72,977**	52,764
Amortisation of prepaid land lease payments	14	**2,355**	2,293
Amortisation of patent	15	**–**	285
Government grants released		**(25,194)**	(38,547)
Equity-settled share option expense	29	**623**	1,144
Exchange gain on intercompany loans		**(11,150)**	(245)
		958,576	924,200
Increase in inventories		**(294,810)**	(23,154)
Increase in trade receivables		**(32,081)**	(19,768)
Decrease/(increase) in prepayments, deposits and other receivables		**(35,005)**	713
Increase/(decrease) in trade payables		**67,868**	(11,763)
Increase/(decrease) in other payables and accruals		**(53,317)**	17,725
Receipt of government grants		**26,092**	45,883
Cash generated from operations		**637,323**	933,836
Interest received		**11,237**	4,445
PRC profits tax paid		**(181,089)**	(175,115)
Net cash flows from operating activities		**467,471**	763,166
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(194,700)**	(334,060)
Proceeds from disposal of items of property, plant and equipment		**22**	120
Increase in contract in progress	17	**(7,070)**	(91,012)
Prepayments of land lease payments		**(12,892)**	(15,004)
Proceeds from disposal of held-to-maturity investments		**–**	155,175
Purchase of financial assets at fair value through profit or loss		**(594,800)**	(670,000)
Proceeds from disposal of financial assets at fair value through profit or loss		**606,697**	740,942
Proceed from disposal of an available-for-sale investment		**–**	206
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**(100,000)**	40,261
Decrease/(increase) in pledged deposit		**164,000**	(164,000)
Settlement of derivative financial instruments		**(5,291)**	–
Net cash flows used in investing activities		**(144,034)**	(337,372)

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the exercise of share options	28	**–**	3,680
New bank loans		**200,000**	207,160
Repayment of bank loans		**(227,160)**	(42,971)
Interest paid		**(13,850)**	(7,280)
Dividends paid		**(461,726)**	(311,595)
Net cash flows used in financing activities		**(502,736)**	(151,006)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(179,299)**	274,788
Cash and cash equivalents at beginning of year		**710,460**	437,528
Effect of foreign exchange rate changes, net		**251**	(1,856)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**531,412**	710,460
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**371,210**	547,176
Non-pledged time deposits with original maturity of less than three months when acquired		**160,202**	163,284
Cash and cash equivalents as stated in the consolidated statement of cash flows		**531,412**	710,460
Non-pledged time deposits with original maturity of over three months when acquired		**110,000**	10,000
Cash and cash equivalents as stated in the consolidated statement of financial position	23	**641,412**	720,460

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*16*	**807,370**	832,261
CURRENT ASSETS			
Amounts due from subsidiaries	*16*	**451,709**	733,250
Prepayments, deposits and other receivables	*22*	**352**	318
Bank balances	*23*	**3,577**	3,765
Total current assets		**455,638**	737,333
CURRENT LIABILITIES			
Amount due to subsidiaries	*16*	**3,848**	1,685
Other payables and accruals	*25*	**390**	1,465
Total current liabilities		**4,238**	3,150
NET CURRENT ASSETS		**451,400**	734,183
Net assets		**1,258,770**	1,566,444
EQUITY			
Issued capital	*28*	**28,584**	28,584
Reserves	*30(b)*	**1,230,186**	1,537,860
Total equity		**1,258,770**	1,566,444

Zhou Yaxian
Director

Ru Xiquan
Director

1. Corporate Information

Shenguan Holdings (Group) Limited (the "Company") was incorporated in the Cayman Islands on 24 February 2009 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. The registered office of the Company is P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, 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 casing products.

In the opinion of the directors, the immediate holding company of the Company is Rich Top Future Limited ("Rich Top Future"), which was incorporated in the British Virgin Islands ("BVI"), and the ultimate holding company of the Company is Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan"), a Hong Kong incorporated company.

2.1 Basis of Presentation

These financial statements have 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements. However, the application of HKFRS 13 and HKAS 1 Amendments resulted in additional disclosures in the consolidated financial statements.

(a) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of financial instruments are included in note 37 to the financial statements.

(b) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The Group has chosen to use the new title ''statement of profit or loss and other comprehensive income'' as introduced by the amendments in these financial statements.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amounts Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual period beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (Continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity.

Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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 of disposal, 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 recognised 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 profit or loss in the period in which it arises in those expense categories consistent with the function of impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 Summary of Significant Accounting Policies (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 Summary of Significant Accounting Policies (Continued)

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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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 18%	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 financial year end.

An item of property, plant and equipment including significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised 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 and capitalised borrowing costs on related borrowed funds 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.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patent

The purchased patent for the technology in manufacturing protein casing for collagen sausage is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of eight years.

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 net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction cost that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised 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.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects rights and obligations that the Group has retained.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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). The present value of the estimated future cash flows is 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 and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, derivative financial instruments and interest-bearing bank borrowings.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-currrent portions based on assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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 cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised 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 recognised for a provision is the present value at the end of the reporting period 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 profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when 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, when 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 recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 utilised, except:

- when 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 recognised 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 utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Government grants

Government grants are recognised 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 recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised 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 exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, when appropriate, to the net carrying amount of the financial asset; and

(c) from the rendering of services, when the services have been rendered.

Land development investment contract

The Group has entered into a land development investment contract with a local government in the People's Republic of China (the "PRC") and is responsible for the demolition, relocation and land acquisition compensation fees with respect to certain land parcels in Wuzhou during the period of land development.

Pursuant to the land development investment contract, upon completion of the necessary construction works of each land parcel, the Group will be entitled to certain portion of sale proceeds arising from the sale of the relevant land parcel by the local government through public auctions.

Costs incurred by the Group in connection with the land development investment contract comprises mainly the costs related to demolition, relocation and land acquisition compensation fees during the period of land development and are classified as "Contract in progress".

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 Summary of Significant Accounting Policies (Continued)

Other employee benefits

Pension Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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 profit or loss 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.

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 benefits are recognised as cost of sales and administrative expenses in profit or loss 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 capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

The functional currency of the Company is Hong Kong dollar while the presentation currency of the Company for the financial statements is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing 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 end of reporting period. Differences arising on settlement or translation monetary items are recognised in profit or loss.

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain group companies are currencies other than the presentation currency of the Company. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of certain group companies with functional currency other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.5 Significant Accounting Estimates

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainly 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.

2.5 Significant Accounting Estimates (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Income tax

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 realise.

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 realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down 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/write-back of inventories in the period in which such estimate has been changed.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of the 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.

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

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 information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about a major customer

For the year ended 31 December 2013, revenue generated from a single (2012: single) customer of the Group, excluded value added tax, amounting to RMB510,178,000 (2012: RMB507,242,000) has 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 value of goods sold, after allowances for returns and trade discounts during the year.

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

	Group	
	2013 ***RMB'000***	2012 *RMB'000*
Revenue		
Sale of goods	**1,654,492**	1,648,477
Other income, net		
Bank interest income	**13,407**	8,779
Interest income from held-to-maturity investments	**2,790**	3,636
Sale of dried meat products	**246**	605
Government grants*	**22,019**	32,547
Others	**2,232**	1,326
	40,694	46,893
Gains		
Foreign exchange gains, net	**20,006**	2,485
Gain on disposal of financial assets at fair value through profit or loss	**11,897**	20,942
Gain on disposal of an available-for-sale investment	**–**	6
	31,903	23,433
	72,597	70,326

* *Various government grants have been received in respect of significant tax contribution, improvements made to plant and machinery and the acquisition of certain land leases, and plant and equipment. The government grants received relating to assets were recognised as deferred income when conditions of these government grants were fulfilled, and released to the other income over the expected useful lives of the relevant assets. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2013 (2012: Nil).*

5. Finance Costs, Net

	Group 2013 RMB'000	2012 RMB'000
Interest on bank loans wholly repayable within five years	**10,193**	7,280
Less: Government grants*	**(3,175)**	(6,000)
Interest capitalised	**(658)**	(3,519)
	6,360	(2,239)

* *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 the conditions of the government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2013 (2012: Nil).*

6. Profit Before Tax

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

	Notes	2013 RMB'000	2012 RMB'000
Employee benefit expense (including directors' remuneration (*note 7*)):			
Wages and salaries		**118,153**	124,176
Equity-settled share option expense	*29*	**623**	1,144
Retirement benefit contributions		**13,815**	26,834
		132,591	152,154
Auditors' remuneration		**1,937**	2,020
Cost of inventories sold		**295,456**	275,191
Depreciation	*13*	**72,977**	52,764
Amortisation of prepaid land lease payments	*14*	**2,355**	2,293
Amortisation of a patent*	*15*	**–**	285
Minimum lease payments under operating leases in respect of buildings		**815**	811
Loss on disposal of items of property, plant and equipment		**140**	3
Write-back of inventories to net realisable value**		**–**	(6,697)

6. Profit Before Tax (Continued)

	Notes	2013 RMB'000	2012 RMB'000
Impairment of trade receivables	*21*	**464**	3,207
Fair value loss of derivative instruments, net			
– transactions not qualifying as hedges	*26*	**2,906**	2,385

* *The amortisation of a patent is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.*

** *The write-back of inventories to net realisable value is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.*

7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2013 RMB'000	Group 2012 RMB'000
Fees	**948**	908
Other emoluments:		
Salaries, allowances and benefits in kind	**2,324**	2,320
Discretionary performance-related bonuses*	**7,721**	8,794
Equity-settled share option expense	**415**	766
Retirement benefit contributions	**20**	16
	10,480	11,896
	11,428	12,804

* *Executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit before tax of the Group.*

7. Directors' Remuneration (Continued)

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2013 *RMB'000*	2012 *RMB'000*
Mr. Tsui Yung Kwok	**180**	170
Mr. Meng Qinguo	**180**	170
Mr. Yang Xiaohu	**180**	170
	540	510

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

(b) Executive directors and a non-executive director

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary performance-related bonuses *RMB'000*	Equity-settled share option expense *RMB'000*	Retirement benefit contributions *RMB'000*	Total remuneration *RMB'000*
2013						
Executive directors:						
Ms. Zhou Yaxian	68	955	2,969	–	5	3,997
Ms. Cai Yueqing	68	340	1,188	104	–	1,700
Mr. Shi Guicheng	68	343	1,188	104	5	1,708
Mr. Ru Xiquan	68	343	1,188	104	5	1,708
Mr. Mo Yuxian	68	343	1,188	103	5	1,707
	340	2,324	7,721	415	20	10,820
Non-executive director:						
Mr. Low Jee Keong	68	–	–	–	–	68
	408	2,324	7,721	415	20	10,888

7. Directors' Remuneration (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2012						
Executive directors:						
Ms. Zhou Yaxian	68	954	3,382	–	4	4,408
Ms. Cai Yueqing	68	340	1,353	192	–	1,953
Mr. Shi Guicheng	68	342	1,353	192	4	1,959
Mr. Ru Xiquan	68	342	1,353	192	4	1,959
Mr. Mo Yuxian	58	342	1,353	190	4	1,947
	330	2,320	8,794	766	16	12,226
Non-executive director:						
Mr. Low Jee Keong	68	–	–	–	–	68
	398	2,320	8,794	766	16	12,294

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

8. Five Highest Paid Employees

The five highest paid employees during the year included five directors (2012: five directors), details of whose remuneration are set out in note 7 above.

9. Income Tax Expense

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 year ended 31 December 2013 (2012: Nil).

Wuzhou Shenguan Protein Casing Co., Ltd. and Wuzhou Shensheng Collagen Co., Ltd., being the Company's wholly-owned subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are subject to the region's preferential corporate income tax ("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).

	2013	2012
	RMB'000	*RMB'000*
Group:		
Current tax charge for the year		
– PRC	**179,637**	186,007
Overprovision in prior year	**–**	(5,398)
Deferred tax *(note 19)*	**(17,094)**	1,409
Total tax charge for the year	**162,543**	182,018

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates of the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

Group – 2013

	Mainland China		**Hong Kong**		**Total**	
	RMB'000	*%*	***RMB'000***	*%*	***RMB'000***	*%*
Profit before tax	**927,598**		**6,222**		**933,820**	
Tax at the statutory tax rates	**231,900**	**25.0**	**1,027**	**16.5**	**232,927**	**24.9**
Lower tax rate for specific province or enacted by local authority	**(92,759)**		**–**		**(92,759)**	
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**21,078**		**–**		**21,078**	
Expenses not deductible for tax	**3,849**		**626**		**4,475**	
Income not subject to tax	**(1,525)**		**(1,833)**		**(3,358)**	
Tax loss not recognized	**–**		**180**		**180**	
Tax charge at the Group's effective rate	**162,543**	**17.5**	**–**	**–**	**162,543**	**17.4**

9. Income Tax Expense (Continued)

Group – 2012

	Mainland China RMB'000	%	Hong Kong RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	932,555		(2,354)		930,201	
Tax at the statutory tax rates	233,139	25.0	(388)	16.5	232,751	25.0
Lower tax rate for specific province or enacted by local authority	(93,259)		–		(93,259)	
Adjustments in respect of current tax of previous period	(5,398)		–		(5,398)	
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	45,860		–		45,860	
Expenses not deductible for tax	4,114		915		5,029	
Income not subject to tax	(540)		(527)		(1,067)	
Tax loss utilised from previous periods	(1,898)		–		(1,898)	
Tax charge at the Group's effective rate	182,018	19.5	–	–	182,018	19.6

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2013 includes a loss of RMB2,768,000 (2012: RMB3,117,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. Dividends

	2013 RMB'000	2012 RMB'000
Interim dividend – HK4.7 cents (2012: HK4.5 cents) per ordinary share	**124,307**	122,418
Interim special dividend – HK2.8 cent (2012: HK1.0 cents) per ordinary share	**74,055**	27,204
Final dividend proposed subsequent to the reporting period – HK7.0 cents (2012: HK6.5 cents) per ordinary share	**183,717**	174,680
Final special dividend proposed subsequent to the reporting period – HK4.5 cents (2012: HK3.3 cents) per ordinary share	**118,104**	88,684
	500,183	412,986

The proposed final dividend and special dividend subsequent to the reporting period have not been recognised as a liability at the end of the reporting period and are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings Per Share Attributable to Ordinary Owners of the Company

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary owners of the Company of RMB771,277,000 (2012: RMB748,183,000), and the weighted average number of ordinary shares of 3,324,120,000 (2012: 3,323,289,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary owners of the Company of RMB771,277,000 (2012: RMB748,183,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 2,912,000 (2012: 3,915,000) assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares.

13. Property, Plant and Equipment

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2013					
At 31 December 2012 and at 1 January 2013:					
Cost	**409,390**	**716,421**	**17,140**	**297,493**	**1,440,444**
Accumulated depreciation	**(37,276)**	**(153,762)**	**(5,680)**	**–**	**(196,718)**
Net carrying amount	**372,114**	**562,659**	**11,460**	**297,493**	**1,243,726**
At 1 January 2013, net of accumulated depreciation	**372,114**	**562,659**	**11,460**	**297,493**	**1,243,726**
Additions	**7,221**	**44,811**	**639**	**182,317**	**234,988**
Disposals	**–**	**(156)**	**(6)**	**–**	**(162)**
Depreciation provided during the year	**(13,982)**	**(57,503)**	**(1,492)**	**–**	**(72,977)**
Transfers	**68,590**	**203,150**	**134**	**(271,874)**	**–**
At 31 December 2013, net of accumulated depreciation	**433,943**	**752,961**	**10,735**	**207,936**	**1,405,575**
At 31 December 2013:					
Cost	**485,202**	**964,083**	**17,739**	**207,936**	**1,674,960**
Accumulated depreciation	**(51,259)**	**(211,122)**	**(7,004)**	**–**	**(269,385)**
Net carrying amount	**433,943**	**752,961**	**10,735**	**207,936**	**1,405,575**

13. Property, Plant and Equipment (Continued)

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2012					
At 1 January 2012:					
Cost	257,938	554,510	17,044	237,132	1,066,624
Accumulated depreciation	(28,633)	(111,163)	(4,302)	–	(144,098)
Net carrying amount	229,305	443,347	12,742	237,132	922,526
At 1 January 2012, net of accumulated depreciation	229,305	443,347	12,742	237,132	922,526
Additions	2,301	19,528	214	352,044	374,087
Disposals	(119)	–	(4)	–	(123)
Depreciation provided during the year	(8,673)	(42,599)	(1,492)	–	(52,764)
Transfers	149,300	142,383	–	(291,683)	–
At 31 December 2012, net of accumulated depreciation	372,114	562,659	11,460	297,493	1,243,726
At 31 December 2012:					
Cost	409,390	716,421	17,140	297,493	1,440,444
Accumulated depreciation	(37,276)	(153,762)	(5,680)	–	(196,718)
Net carrying amount	372,114	562,659	11,460	297,493	1,243,726

14. Prepaid Land Lease Payments

	Group	
	2013	2012
	RMB'000	*RMB'000*
Carrying amount at 1 January	**108,640**	107,929
Additions during the year	**11,699**	3,004
Recognised during the year	**(2,355)**	(2,293)
Carrying amount at 31 December	**117,984**	108,640
Current portion included in prepayments, deposits and other receivables	**(2,350)**	(2,350)
Non-current portion	**115,634**	106,290

The leasehold lands are situated in Mainland China and are held under medium term leases.

15. Patent

	Group	
	2013	2012
	RMB'000	*RMB'000*
Cost at 1 January, net of accumulated amortisation	**–**	285
Amortisation provided during the year	**–**	(285)
At 31 December	**–**	–
At 31 December		
Cost	**6,867**	6,867
Accumulated amortisation	**(6,867)**	(6,867)
Net carrying amount	**–**	–

16. Investments in Subsidiaries

	Company 2013 RMB'000	Company 2012 RMB'000
Unlisted shares, at cost	**152,955**	157,480
Advances to subsidiaries	**647,038**	667,817
Capital contribution in respect of employee share-based compensation	**7,377**	6,964
	807,370	832,261

The amounts advanced to the subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB451,709,000 (2012: RMB733,250,000) and RMB3,848,000 (2012: RMB1,685,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

The carrying amounts of the amounts due from and to subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Excel Gather Limited	Hong Kong	HK$1	–	100%	Investment holding
Forever Gather Limited	Hong Kong	HK$1	–	100%	Investment holding
Full Win Consultants Limited#	BVI/Hong Kong	US$1	100%	–	Investment holding
Jumbo Gain Developments Limited#	BVI/Hong Kong	US$1	100%	–	Investment holding
Shenguan Industrial Company Limited#	BVI/Hong Kong	US$10,000	100%	–	Investment holding
Shenguan Investments Company Limited	Hong Kong	HK$0.01	–	100%	Dormant
梧州神冠蛋白腸衣有限公司 ("Wuzhou Shenguan Protein Casing Co., Ltd.")#/*/^	PRC/Mainland China	RMB460,000,000	–	100%	Manufacture and sale of collagen sausage casing

16. Investments in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
梧州市神生膠原製品有限公司 ("Wuzhou Shensheng Collagen Products Co., Ltd")#/***/^	PRC/Mainland China	RMB200,000,000	–	100%	Manufacture and sale of collagen
梧州市神冠投資開發有限公司 ("Wuzhou Shenguan Investment Development Co., Ltd")#/***/^	PRC/Mainland China	RMB50,000,000	–	100%	Dormant
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 Co., Ltd") #/**/^	PRC/Mainland China	RMB500,000	–	100%	Investment holding

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

* *This entity is registered as a Sino-foreign joint venture under PRC law.*

** *This entity is registered as a wholly-foreign-owned enterprise under PRC law.*

*** *These entities are registered as domestic limited liability companies under PRC law*

^ *The English names of these entities represent the best effort made by management of the Company to directly translate their Chinese names as no official English names have been registered.*

17. Contract in Progress

	2013	2012
	RMB'000	*RMB'000*
At 1 January	**91,012**	–
Additions	**7,070**	91,012
At 31 December	**98,082**	91,012

During 2012, the Group entered into a land development investment contract (the "Contract") with a local government in the PRC. Pursuant to the Contract, the Group is responsible for the demolition, relocation and land acquisition compensation fees with respect to certain land parcels in Wuzhou during the period of land development. The land parcels will be subsequently sold by the local government through public auction. The Group is entitled to certain portion of sales proceeds arising from such land sales. The entire land development is expected to be completed in phase in or after 2014.

Costs incurred by the Group in connection with the Contract comprises mainly the costs related to demolition, relocation and land acquisition compensation fees during the period of land development and are classified as "Contract in progress".

In the opinion of the directors, no provision for impairment is necessary for the contract in progress.

18. Held-to-Maturity Investments

Group

	2013			2012		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
PRC Certificate Treasury Bonds	**5.6**	**2014**	**55,983**	–	–	–
Non-current						
PRC Certificate Treasury Bonds	**–**	**–**	**–**	5.6	2014	53,193
			55,983			53,193

The held-to-maturity investments represent unlisted, non-transferrable PRC Certificate Treasury Bonds issued by the Ministry of Finance of the PRC. The investments are carried at amortised cost.

The carrying amounts of the held-to-maturity investments approximate to their fair values.

19. Deferred Tax

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	Deferred government grants RMB'000	Depreciation in excess of related depreciation allowance RMB'000	Accrued salary RMB'000	Impairment provision against trade receivables RMB'000	Impairment provision against inventories RMB'000	Unrealised profits arising from intra-group transactions RMB'000	Total RMB'000
At 1 January 2012	4,342	1,682	6,275	770	1,005	–	14,074
Deferred tax credited/ (charged) to profit or loss during the year *(note 9)*	2,826	69	(2,539)	481	(1,005)	–	(168)
At 31 December 2012 and at 1 January 2013	**7,168**	**1,751**	**3,736**	**1,251**	**–**	**–**	**13,906**
Deferred tax credited/ (charged) to profit or loss during the year *(note 9)*	**(1,464)**	**(204)**	**(758)**	**70**	**–**	**19,450**	**17,094**
At 31 December 2013	**5,704**	**1,547**	**2,978**	**1,321**	**–**	**19,450**	**31,000**

19. Deferred Tax (Continued)

Deferred tax liabilities

Group

	Withholding tax *RMB'000*
At 1 January 2012	630
Deferred tax charged to profit or loss during the year *(note 9)*	1,241
At 31 December 2012 and at 1 January 2013	1,871
Deferred tax charged to profit or loss during the year *(note 9)*	–
At 31 December 2013	1,871

The Group has tax losses arising in Hong Kong of HK$12,522,000 (2012: HK$11,150,000), which was equivalent to RMB9,777,000 (2012: RMB8,964,000), subject to the confirmation of tax losses from the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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 Mainland China. 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 Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2013, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,484,237,000 at 31 December 2013 (2012: RMB875,148,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. Inventories

	Group	
	2013	2012
	RMB'000	*RMB'000*
Raw materials	**107,930**	33,508
Work in progress	**37,505**	5,101
Finished goods	**354,871**	166,887
	500,306	205,496

21. Trade Receivables

	Group	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**219,978**	191,111
Due from related companies	**6,898**	3,220
Impairment	**(8,801)**	(8,337)
	218,075	185,994

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 policy to minimise 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate to their fair values.

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**208,594**	174,327
3 to 4 months	**4,761**	5,896
Over 4 months	**4,720**	5,771
	218,075	185,994

21. Trade Receivables (Continued)

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2013 **RMB'000**	2012 *RMB'000*
At 1 January	**8,337**	5,130
Impairment losses recognised *(note 6)*	**464**	3,207
At 31 December	**8,801**	8,337

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB8,801,000 (2012: RMB8,337,000) with a carrying amount before provision of RMB9,052,000 (2012:RMB11,202,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2013 **RMB'000**	2012 *RMB'000*
Neither past due nor impaired	**199,634**	167,603
Less than 1 month past due	**8,960**	11,157
1 to 2 months past due	**4,761**	1,463
Over 2 months past due	**4,469**	2,906
	217,824	183,129

21. Trade Receivables (Continued)

Due from related companies:

	31 December 2013 RMB'000	Group Maximum amount outstanding during the year RMB'000	1 January 2013 RMB'000
LJK Frozen SDN. BHD. ("LJK") *(note (a))*	**4,739**	**4,739**	1,537
Ample Company LLC ("Ample Company") *(note (b))*	**2,159**	**5,613**	1,683
	6,898	**10,352**	3,220

Notes:

(a) LJK is controlled by Mr. Low Jee Keong, a director of the Company. The amount due from LJK is unsecured, non-interest-bearing and has a repayment term of 45 days, which is on terms similar to those offered to other major customers of the Group.

(b) Ample Company is jointly controlled by Mr. Wei Cheng and his wife. Mr. Wei Cheng is a director of certain subsidiaries of the Company. The amount due from Ample Company is unsecured, non-interest-bearing and has a repayment term of 45 days, which is on terms similar to those offered to other major customers of the Group.

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 of the Company 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.

22. Prepayments, Deposits and Other Receivables

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Prepayments	**36,551**	17,718	**278**	287
Deposits and other receivables	**53,594**	34,409	**74**	31
	90,145	52,127	**352**	318

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amounts of the deposits and other receivables approximate to their fair values.

23. Cash and Cash Equivalents and Pledged Deposit

		Group		Company	
	Note	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cash and bank balances		**371,210**	547,176	**3,577**	3,765
Time deposits		**270,202**	337,284	**–**	–
		641,412	884,460	**3,577**	3,765
Less: Pledged time deposit for a short term bank loan	27	**–**	(164,000)	**–**	–
Cash and cash equivalents		**641,412**	720,460	**3,577**	3,765

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB631,728,000 (2012: RMB709,026,000). 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 varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

24. Trade Payables

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

	Group	
	2013 RMB'000	2012 RMB'000
Within 1 month	**74,317**	36,348
1 to 2 months	**30,488**	2,055
2 to 3 months	**437**	212
Over 3 months	**3,297**	2,056
	108,539	40,671

The trade payables are non-interest-bearing and are normally settled on terms of 60 days. The carrying amount of the trade payables approximate to their fair values.

25. Other Payables and Accruals

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**6,545**	6,243	**–**	–
Accruals	**21,507**	56,264	**–**	656
Other payables	**142,253**	143,247	**390**	809
	170,305	205,754	**390**	1,465

Other payables are non-trade, unsecured and non-interest-bearing and are normally settled on terms of 60 days. The carrying amounts of the other payables and accruals approximate to their fair values.

26. Derivative Financial Instruments

	2013		2012	
Group	**Assets**	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Forward currency contracts – current	**–**	**–**	–	2,385

In 2012, the Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward contracts are not designated for hedge purposes and are measured at fair value through profit or loss held for trading. Changes in the fair value of these currency derivatives amounting to RMB2,906,000 were charged to profit or loss during the year ended 31 December 2013 (2012: RMB2,385,000).

27. Interest-Bearing Bank Borrowings

Group

	2013			2012		
	Effective contractual interest rate (%)	**Maturity**	***RMB'000***	Effective contractual interest rate (%)	Maturity	*RMB'000*
Current						
Bank loan – secured	–	–	–	3.70	On demand	162,160
Bank loans – unsecured	**6.00**	**2014**	**200,000**	–	–	–
Current portion of long term bank loans – unsecured	–	–	–	7.27	2013	5,000
			200,000			167,160
Non-current						
Bank loans – unsecured	–	–	–	7.27–7.32	2014–2015	60,000
			200,000			227,160

	Group	
	2013 ***RMB'000***	2012 *RMB'000*
Analysed into:		
Within one year or on demand	**200,000**	167,160
In the second year	**–**	15,000
In the third to fifth years, inclusive	**–**	45,000
	200,000	227,160

Notes:

(a) All of the Group's bank borrowings are denominated in RMB (2012: All except for a 3.7% secured bank loan which was denominated in Hong Kong dollars).

(b) All of the Group's bank borrowings are unsecured bank borrowings. (2012: Time deposit of RMB164,000,000 was pledged to secure bank borrowings of RMB162,160,000).

(c) All of the Group's borrowings at the end of the reporting period are at fixed rates (2012: All of the Group's borrowings at the end of the reporting period were at floating rates, except for a 3.7% secured bank loan at a fixed rate).

The carrying amounts of the borrowings approximate to their fair values.

28. Share Capital

Shares

	2013 HK$'000	2012 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,324,120,000 (2012: 3,324,120,000) ordinary shares of HK$0.01 each	**33,242**	33,242
Equivalent to RMB'000	**28,584**	28,584

A summary of the transactions during the year ended 31 December 2012 in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Equivalent total RMB'000
At 1 January 2012	3,322,120,000	33,222	1,324,539	28,568	1,167,543	1,196,111
Share option exercised *(note)*	2,000,000	20	5,921	16	4,977	4,993
At 31 December 2012, 1 January 2012 and 31 December 2013	**3,324,120,000**	**33,242**	**1,330,460**	**28,584**	**1,172,520**	**1,201,104**

Note:

In 2012, the subscription rights attaching to 2,000,000 share options were exercised at the subscription price of HK$2.165 per share (note 29), resulting in the issue of 2,000,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$4,330,000 (equivalent to RMB3,680,000). An amount of HK$1,611,000 (equivalent to RMB1,313,000) was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

29. Share Option Scheme

In order to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the ''Scheme'') on 19 September 2009 whereby the board of directors (the ''Board'') is authorised, at its absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the ''Shares'') to, inter alia, any employees (full-time or part-time), directors, consultants and advisors or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 13 October 2009 and shall be valid and effective for a period of ten years commencing on 19 September 2009, subject to the early termination provisions contained in the Scheme.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the Shares in issue on the Listing Date. The Company may at any time refresh this limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within seven days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised in accordance with the terms of the 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.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Shares as stated in The Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in The Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option provided always that for the purpose of calculating the subscription price, where the Company has been listed on The Stock Exchange for less than five business days, the issue price shall be used as the closing price for any trading day fall within the period before the Listing Date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. Share Option Scheme (Continued)

The following share options were outstanding under the Scheme during the year:

	2013 Weighted average exercise price HK$ per share	2013 Number of options '000	2012 Weighted average exercise price HK$ per share	2012 Number of options '000
At 1 January	**2.165**	**7,880**	2.165	9,880
Exercised during the year	**–**	**–**	2.165	(2,000)
At 31 December	**2.165**	**7,880**	2.165	7,880

No share options were exercised during the year. The weighted average share price at the date of exercise for share options exercised during year ended 31 December 2012 was HK$3.91 per share.

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2013

Number of options '000	Exercise price* HK$ per share	Exercise period
7,880	**2.165**	**13 October 2010 – 12 October 2015**

2012

Number of options '000	Exercise price* HK$ per share	Exercise period
7,880	2.165	13 October 2010 – 12 October 2015

* *The exercise price of the share option is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair value of the share options granted in 2009 was HK$9,760,000 (HK$0.7790 to HK$0.8320 each), of which the Group recognised a share option expense of RMB623,000 (2012: RMB1,144,000) during the year ended 31 December 2013.

29. Share Option Scheme (Continued)

The fair value of equity-settled share options granted in 2009 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	–
Expected volatility (%)	36.955
Risk-free interest rate (%)	1.911
Expected life of options (year)	5.14–5.90
Weighted average share price (HK$ per share)	2.165

The expected life of the options is based on management's expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility which is based on the volatility computed from comparable companies reflects the assumption that the volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

There was no share option exercised during the year. During the year ended 31 December 2012, 2,000,000 share options were exercised which resulted in the issue of 2,000,000 ordinary shares of the Company and new share capital of HK$20,000 (equivalent to RMB16,000) and share premium of HK$4,310,000 (equivalent to RMB3,664,000) (before issue expenses), as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 7,880,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,880,000 additional ordinary shares of the Company and additional share capital of HK$79,000 (RMB62,000) and share premium of HK$16,981,000 (RMB13,259,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 7,880,000 share options outstanding under the Scheme, which represented approximately 0.24% of the Company's shares in issue as at that date.

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Contributed surplus

The Group's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation in 2009 over the nominal value of the Company's shares issued in exchange therefor.

(ii) 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.

(iii) Other reserves

Other reserves represent: (1) the aggregate of the difference between consideration paid for acquisition of an equity interest in subsidiaries and the carrying value of non-controlling interests, and the difference arising from deemed disposal of equity interests to non-controlling shareholders; and (2) waiver of amounts due to related parties.

30. Reserves (Continued)

(b) Company

	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012	1,167,543	172,535	(119,489)	4,743	232,408	1,457,740
Profit for the year	–	–	–	–	399,781	399,781
Exchange realignment	–	–	(12,874)	–	–	(12,874)
Total comprehensive income for the year	–	–	(12,874)	–	399,781	386,907
Issue of shares in connection with exercise of share options	4,977	–	–	(1,313)	–	3,664
Equity-settled share option arrangements	–	–	–	1,144	–	1,144
Final 2011 dividend	–	–	–	–	(161,973)	(161,973)
Interim 2012 dividend	–	–	–	–	(122,418)	(122,418)
Special interim 2012 dividend	–	–	–	–	(27,204)	(27,204)
At 31 December 2012 and 1 January 2013	1,172,520*	172,535	(132,363)	4,574	320,594*	1,537,860
Profit for the year	–	–	–	–	188,580	188,580
Exchange realignment	–	–	(35,151)	–	–	(35,151)
Total comprehensive income for the year	–	–	(35,151)	–	188,580	153,429
Equity-settled share option arrangements	–	–	–	623	–	623
Final 2012 dividend	–	–	–	–	(174,680)	(174,680)
Special final 2012 dividend	–	–	–	–	(88,684)	(88,684)
Interim 2013 dividend	–	–	–	–	(124,307)	(124,307)
Special interim 2013 dividend	–	–	–	–	(74,055)	(74,055)
At 31 December 2013	1,172,520*	172,535	(167,514)	5,197	47,448*	1,230,186

* *These reserve accounts comprise the Company's reserves available for distribution amounting to RMB1,219,968,000 (2012: RMB1,493,114,000).*

30. Reserves (Continued)

(b) Company (Continued)

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

31. Contingent Liabilities

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

32. Pledge of Assets

Details of the Group's bank borrowing, which are secured by the assets of the Group, are included in notes 23 and 27, respectively, to the financial statements.

33. Operating Lease Arrangements

As lessee

The Group leases certain of its retail outlets and its office premises under operating lease arrangements. Leases are negotiated for terms ranging from three to five years.

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Within one year	**246**	676
In the second to fifth years, inclusive	**–**	253
	246	929

34. Commitments

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Buildings	**110,424**	65,225
Plant and machinery	**3,516**	60,865
	113,940	126,090

At the end of the reporting period, the Company had no significant commitments.

35. Related Party Disclosures

(a) In addition to those transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2013** ***RMB'000***	2012 *RMB'000*
Company jointly controlled by a director and his wife of certain subsidiaries of the Company:			
Sales of products	*(i)*	**10,851**	8,040
Commission paid	*(ii)*	**717**	1,173
Company controlled by a director of the Company:			
Sales of products	*(i)*	**8,956**	6,712
Companies controlled by spouse of a director of the Company:			
Purchases of packing materials	*(iii)*	**29,916**	26,762

Notes:

(i) The sales were made according to the prices and conditions offered to major customers of the Group.

(ii) The commission was calculated based on 2.0% (2012: 2.0%) of the transaction value on the sale of products to those overseas customers arranged by the related company.

(iii) These transactions were based on terms mutually agreed between the parties.

35. Related Party Disclosures (Continued)

(b) Balances with related parties

Balances with related parties are detailed in note 21 to these financial statements.

(c) Compensation of key management personnel of the Group

	2013 RMB'000	2012 RMB'000
Fees	**400**	375
Salaries, allowances and benefits in kind	**2,952**	2,955
Performance-related bonuses	**9,338**	10,773
Retirement benefit contributions	**37**	31
Equity-settled share option expense	**520**	956
Total compensation paid to key management personnel	**13,247**	15,090

Further details of directors' emoluments are included in note 7 to these financial statements.

The related party transactions in respect of items (a) and (c) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36. Financial Instruments by Category

Other than held-to-maturity investments and derivative financial instruments as disclosed in notes 18 and 26 of the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2013 and 2012 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

37. Fair Value and Fair Value Hierarchy of Financial Instruments

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

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

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings and held-to-maturity investments have been calculated by discounting the expected future cash flows using rates currently available for instruments on with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2013 was assessed to be insignificant.

37. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to forward pricing models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates curves. The carrying amounts of forward currency contracts are the same as their fair values.

As at 31 December 2012, the marked to market value of the derivative liability position was net of a credit valuation adjustment attributable to derivative counterparty default risk.

Fair value hierarchy

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

Liabilities measured at fair value:

Group
As at 31 December 2012

	Fair vale measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Derivative financial instruments	–	2,385	–	2,385

The Group did not have any financial assets measured at fair value as at 31 December 2013 and 2012, and financial liabilities measured at fair value as at 31 December 2013.

The Company did not have any financial assets and financial liabilities measured at fair value as at 31 December 2013 and 2012.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and liabilities (2012: Nil).

38. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise held-to-maturity investments, cash and bank balances, and interest-bearing bank borrowings. 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 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 summarised 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 rates, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

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 2013, it was estimated that if interest rates at those dates had been 100 basis points higher/lower, with all other variables held constant, there would have been no impact on the Group's profit before tax and equity for the year ended 31 December 2013 (through the impact on floating rate borrowings) (2012: RMB493,000), as all the Group's borrowings at 31 December 2013 were at fixed rates.

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 were settled in other currencies including US$. The Group also had a bank borrowing denominated in HK$ in 2012. The fluctuation of the exchange rates of such currencies against RMB will affect the Group's results of operations. The Group has entered into forward currency contracts to mitigate the exchange rate risk of HK$ against RMB at the bank borrowing maturity date. The change in value of these forward currency contracts is expected to offset the exchange rate difference of the HK$ denominated bank borrowing at the bank borrowing maturity date.

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.

38. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

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. As at 31 December 2012, the Group has entered into forward currency contracts in an effort to reduce the Group's exposure to foreign currency exchange risk of its bank loan denominated in HK$ as described above, the contracts were matured and fully settled as at 31 December 2013. The Group, however, has not entered into other hedging transactions to reduce the Group's exposure to foreign currency risk resulting from trade receivables denominated in US$. While the Group may decide to enter into other 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 US$ and RMB or between HK$ and RMB would have no material impact on the Group's profit during the years ended 31 December 2013 and 2012 and there would be no impact on the Group's equity.

Credit risk

The Group trades only with recognised 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 cash equivalents, 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 recognised 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 21 to the financial statements.

38. Financial Risk Management Objectives and Policies (Continued)

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, counterparties being unable to repay their 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 of the Company, 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 the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2013			
	Within one year or on demand *RMB'000*	**In the second year** *RMB'000*	**In the third to fifth years, inclusive** *RMB'000*	**Total** *RMB'000*
Interest-bearing bank borrowings	**204,577**	**–**	**–**	**204,577**
Trade payables	**108,539**	**–**	**–**	**108,539**
Other payables and accruals	**163,760**	**–**	**–**	**163,760**
	476,876	**–**	**–**	**476,876**

	2012			
	Within one year or on demand *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Total *RMB'000*
Interest-bearing bank borrowings	171,771	19,225	46,150	237,146
Trade payables	40,671	–	–	40,671
Other payables and accruals	199,511	–	–	199,511
Derivative financial instruments	2,385	–	–	2,385
	414,338	19,225	46,150	479,713

38. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Company

As at 31 December 2013, the Company had other payables and accruals and amount due to subsidiaries amounting to RMB390,000 (2012: RMB1,465,000) and RMB3,848,000 (2012: RMB1,685,000), respectively, all of which were repayable within one year or on demand.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

The Group monitors capital using a gearing ratio. This ratio is calculated as net asset divided by adjusted capital. Net asset is calculated as total interest-bearing bank borrowings, trade payables, and other payables and accruals (as shown in the consolidated statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity attributable to owners of the Company. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios as at the ends of the reporting periods were as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**200,000**	227,160
Trade payables	**108,539**	40,671
Other payables and accruals	**170,305**	205,754
Less: Cash and cash equivalents	**(641,412)**	(720,460)
Net cash	**162,568**	246,875
Adjusted capital	**2,644,058**	2,344,783
Gearing ratio	**–**	–

38. Financial Risk Management Objectives and Policies (Continued)

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 ends of the reporting periods. The carrying amount of the Group's derivative financial instruments are the same as their fair values.

The carrying amounts of all other financial instruments approximate to their fair values due to the short term to maturity.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 17 March 2014.

FIVE YEAR FINANCIAL SUMMARY

The consolidated results of Shenguan Holdings (Group) Limited and its subsidiaries (together the "Group") for the five years ended 31 December 2009, 2010, 2011, 2012 and 2013 and the consolidated assets, liabilities and non-controlling interests of the Group as at 31 December 2009, 2010, 2011, 2012 and 2013 are those set out in the published audited financial statements.

The summary below does not form part of the audited financial statements.

Year ended 31 December

	2013	2012	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
REVENUE	**1,654,492**	1,648,477	1,501,985	1,152,689	794,418
Cost of sales	**(687,010)**	(689,255)	(571,709)	(454,616)	(308,641)
Gross profit	**967,482**	959,222	930,276	698,073	485,777
Other income and gains	**72,597**	70,326	62,578	49,118	3,548
Selling and distribution expenses	**(22,039)**	(20,385)	(22,533)	(14,595)	(11,191)
Administrative expenses	**(77,860)**	(81,201)	(101,911)	(68,026)	(79,587)
Finance costs, net	**(6,360)**	2,239	(289)	252	(11,448)
PROFIT BEFORE TAX	**933,820**	930,201	868,121	664,822	387,099
Income tax expense	**(162,543)**	(182,018)	(163,490)	(134,520)	(35,998)
PROFIT FOR THE YEAR	**771,277**	748,183	704,631	530,302	351,101
Profit attributable to:					
Owners of the Company	**771,277**	748,183	689,319	513,458	326,061
Non-controlling interests	**–**	–	15,312	16,844	25,040
	771,277	748,183	704,631	530,302	351,101
As at 31 December					
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**3,185,057**	2,882,621	2,192,395	2,199,754	1,752,793
TOTAL LIABILITIES	**(540,999)**	(537,838)	(286,923)	(335,154)	(236,775)
NON-CONTROLLING INTERESTS	**–**	–	–	(26,921)	(19,377)
	2,644,058	2,344,783	1,905,472	1,837,679	1,496,641