

OVERVIEW

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

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

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

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

COMPETITIVE STRENGTHS

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

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

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

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

BUSINESS

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

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

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

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

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

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

We have established a long-term business relationship with our major customers, a number of which are leading manufacturers of processed meat products and/or sausages in the PRC, including Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Yurun Group Co., Ltd. (南京雨潤食品有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates. As most of our sales of collagen sausage casing products in the PRC are made by direct sales, we have developed a close relationship with our customers, which helps us to stay current with and to meet their needs and requirements promptly and efficiently. We believe our years of trusted cooperation creates an entry barrier to competitors or potential competitors in the market. In addition, as the PRC's processed meat products industry matures, many of our customers have established increasingly stringent requirements on their suppliers. By providing high quality collagen sausage casing products and supportive after-sales services to our customers, we have been able to secure large recurring sales orders from our customers, which has driven our business growth and production expansion.

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

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

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

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

BUSINESS STRATEGIES

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

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

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

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

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

Strengthen our existing customer base and develop new markets globally

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

Further enhance our cost structure and operational efficiency

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

PRODUCTS

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

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

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

BUSINESS

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

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

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

Revenue by Product Categories

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

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

RAW MATERIALS AND SUPPLIERS

Raw Materials and Other Supplies

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

Cattle's inner skins

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

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

Other supplies

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

Suppliers

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

BUSINESS

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

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

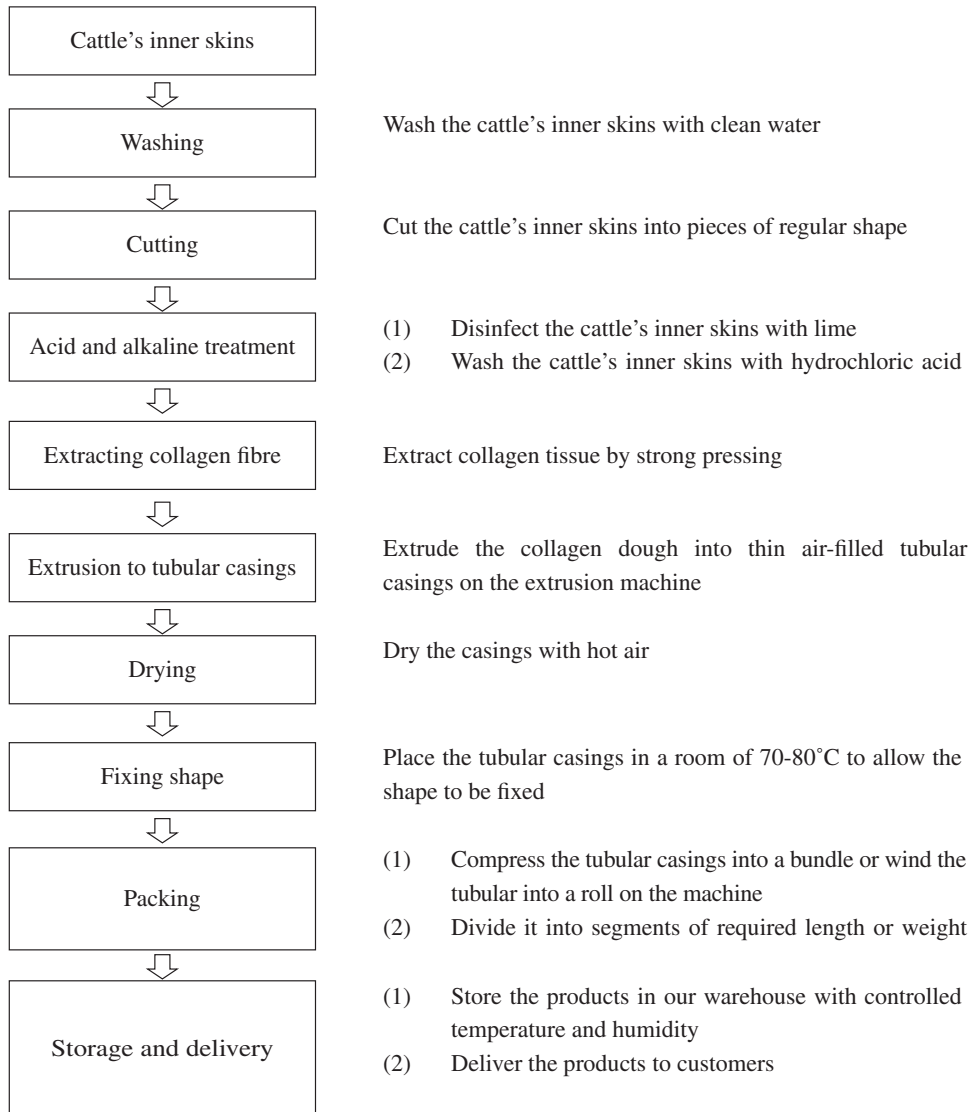
Our top five suppliers during the Track Record Period were all Independent Third Parties except Wuzhou Junye Printing Material. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our purchases from Wuzhou Junye Printing Material amounted to approximately RMB2.3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

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

PRODUCTION

Manufacture of edible collagen sausage casing products

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



BUSINESS

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

Production plan

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

Production premises

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

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

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

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

BUSINESS

Property, plant and machinery

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

Expenditure on property, plant and equipment

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

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

Maintenance

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

BUSINESS

Production capacity and production volumes

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

Production capacity

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

Notes:

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

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

Production contingency plan

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

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

BUSINESS

QUALITY CONTROL

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

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

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

Measures on quality control

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

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

BUSINESS

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

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

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

Hygiene control and food safety

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

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

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

INVENTORY CONTROL

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

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

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

BUSINESS

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

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

SALES AND MARKETING

Overview

As at the Latest Practicable Date, our sales and marketing team comprised 21 staff members. In addition to having extensive experience and knowledge of the PRC sausage casing industry, our Directors and senior management have established close business relationship with several sausage manufacturers in the PRC. We have leveraged on the experience, knowledge and relationship network of our senior management to secure reputable sausage manufacturers in the PRC as our major customers, including Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Yurun Group Co., Ltd. (南京雨潤食品有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates.

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

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

Geographic breakdown of sales

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

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

BUSINESS

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

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

Sales and marketing team

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

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

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

Pricing policy and sales terms

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

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

BUSINESS

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

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

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

After-sale service

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

Marketing

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

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

BUSINESS

CUSTOMERS

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

We believe that our ability to maintain customer loyalty is vital to our success. Some of our well-established customers include Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Yurun Group Co., Ltd. (南京雨潤食品有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates.

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

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

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

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

RESEARCH AND DEVELOPMENT

We realize the importance of the research and development of new production technologies to our continuous growth. We have a dedicated research and development team responsible for improving the quality and expanding the range of our products. As at the Latest Practicable Date, our research and development team comprised 98 members. Ms. Zhou has long been engaged in the research and development of technologies in the production of collagen sausage casings and has been awarded the “The Third Class Prize in National Science and Technology Advancement Award” (國家科學技術進步三等獎) in December 1995 and special subsidies granted by the State Council. We have also been recognized as one of the “High-tech Enterprises” (高新技術企業) in the PRC, which are supported and encouraged by the PRC Government, and granted the “Certificate of High-tech Enterprise” (高新技術企業證書), which is valid for a period of three years, by the Department of Science and Technology of Guangxi (廣西壯族自治區科學技術廳), Guangxi Local Tax Bureau (廣西壯族自治區地方稅務局), Guangxi Office of the State Administration of Taxation (廣西壯族自治區國家稅務局) and the Department of Finance of Guangxi (廣西壯族自治區財政廳) on 6 July 2009. “High-tech Enterprises” in the PRC are entitled to a preferential enterprise income tax rate of 15%. Our research and development team keeps abreast of the latest developments in production technology by conducting market researches.

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

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

INTELLECTUAL PROPERTY RIGHTS

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

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

BUSINESS

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

COMPETITIVE LANDSCAPE

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

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

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

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

BUSINESS

AWARDS AND CERTIFICATES

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

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

WORKPLACE SAFETY

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

BUSINESS

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

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

ENVIRONMENTAL PROTECTION

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

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

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

BUSINESS

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

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

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

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

INSURANCE COVERAGE

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

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

PROPERTY INTERESTS

Property interests in Hong Kong

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

Property interests in the PRC

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

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

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

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

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

BUSINESS

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

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

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

REGULATORY COMPLIANCE

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

Licences, permits and approvals

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

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

BUSINESS

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

Other compliance

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

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

LEGAL PROCEEDINGS

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