You should read this section in conjunction with our audited combined financial statements, including the notes thereto, as set forth in "Appendix I — Accountants' Report." The combined financial statements have been prepared in accordance with HKFRS. The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please see the section headed "Risk Factors" in this prospectus.

All applicable new and revised HKFRS, which are generally effective for the Track Record Period and are relevant to us, have been applied for the Track Record Period. Our financial information has been prepared under the historical cost convention with the exception of certain assets and liabilities, which (where appropriate) were measured at fair value.

According to Paragraph 27 of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a statement as to the gross trading income or sales turnover (as the case may be) of our Group during each of the three financial years immediately preceding the issue of this prospectus.

According to Paragraph 31 of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a report by our auditor with respect to profits and losses and assets and liabilities of our Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to Rule 4.04(1) of the Listing Rules, we are required to include in this prospectus the Accountants' Report covering the results of our Group in respect of each of the three financial years immediately preceding the issue of this prospectus. The Accountants' Report for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009 has been prepared and is set out in Appendix I to this prospectus.

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since 30 June 2009 and there has been no event since 30 June 2009 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus save for the declaration of dividend of RMB140.3 million by our subsidiaries in September 2009 to their then shareholders for profit generated during the six months ended 30 June 2009. The dividend payables will be fully settled before Listing. Our Directors consider that all information necessary for the public to make an informed assessment of the activities and financial position of our Group has been included in this prospectus.

BASIS OF PRESENTATION

In preparation for the Global Offering, we were incorporated in the Cayman Islands on 24 February 2009.

Pursuant to the Reorganization, our Company became the holding company of the companies now comprising our Group on 18 September 2009. Since our Company and the companies now comprising our Group are under common control both before and after the completion of the Reorganization, the Financial Information has been prepared in accordance with the principles of merger accounting.

The combined statement of comprehensive income, combined statement of changes in equity and combined cash flow statement of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group, as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period. The combined statement of financial position of our Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 have been prepared to present the state of affairs of our Group as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to our Company as at the respective dates.

All intra-group transactions and balances have been eliminated on combination.

OVERVIEW

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

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

Production capacity

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

Sales volume and pricing of our products

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

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

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

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

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

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

Costs of raw materials

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

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

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

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

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

Taxation

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

Competition

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

Government grants and incentives

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Property, plant and equipment

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

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

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

Inventories

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

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

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

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

Trade receivables

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

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

(d) rental income, on a time proportion basis over the lease terms.

Government grants

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

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

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

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

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

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

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

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

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

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

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

Cost of sales

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

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

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

Other income and gains

Our other income consists primarily of bank interest income and sales of dried meat products. During the Track Record Period, we sold dried meat products directly to retail customers through our three retail outlets in Wuzhou under our brand "Shenguan" (「神冠」), some of which use the collagen sausage casings manufactured by us. The sale of dried meat amounted to approximately RMB1.4 million, RMB2.5 million, RMB1.7 million and RMB0.7 million for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, respectively. We also receive other income from sale of scrap materials and rental income. Our gains consists primarily of gain of disposal of equity investments at fair value through profit or loss and available-for-sale investments.

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

Taxes

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

Income tax

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

PRC Enterprise Income tax

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

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

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

The new Law of the People's Public of China on Enterprise Income Tax came into force on 1 January 2008, which set the unified tax rate for all types of enterprises at 25%. However, pursuant to the Circular on the Implementation of Transitional Preferential Enterprise Income Tax Policies (Guo Fa [2007] No. 39 (國發[2007]39號文)) , enterprises entitled to the EIT holiday of "two-year exemption and three-year half deduction" shall continue to enjoy the preferential tax treatment until it expires, and the preferential EIT rate of 15% based on the "Go West" policy shall continue to apply.

Wuzhou Shenguan had successfully obtained an approval in 2008 on grandfathering its preferential tax treatment from the State Tax Bureau of Wanxiu District, Wuzhou City (梧州市萬秀區國家稅務局).

In addition, Wuzhou Shenguan has been recognized as one of the "High-tech Enterprises" (高新技術企業) in the PRC and granted the "Certificate of High-tech Enterprises" (高新技術企業証書), 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 Office of the State Administration of Taxation (廣西壯族自治區國家稅務區) 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%.

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

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

- Overseas income tax

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

- Hong Kong profits tax

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

VAT

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

Reconciliation

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

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

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

Note:

(a) Wuzhou Shenguan was exempted from the Foreign Enterprise Income Tax ("FEIT") 2006 and was entitled to a 50% reduction on the FEIT in 2007 and 2008. In addition, as part of its "Go West" policy directives, Wuzhou Shenguan was provided a preferential tax treatment at an FEIT rate of 15% as it is located in Western China as specified by the "Go West" policy.

(b) Deferred tax assets/liabilities were initially recognized at their respective statutory tax rates. When the deferred tax assets/liabilities are being realized/utilized, the tax rates are adjusted with reference to the various preferential tax treatments as detailed in (a) above.

(c) The tax incentives were claimed by receiving the FEIT credit in 2006 and 2007 for purchase of domestically-manufactured equipment. The total amount of the FEIT credit claimed was RMB23,650,000. The application of tax credit had been approved by the tax authorities, which had been used to deduct the tax payable for 2007 and 2008.

(d) Expenses not deductible for tax mainly constitute the excess of entertainment expenses and staff costs and benefits above an upper limit, which is calculated with reference to a certain percentage of revenue/deduction threshold for deductible expenses in accordance with PRC tax rules and regulations.

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

RESULTS OF OPERATIONS

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

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

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

Revenue

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

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

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

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

Income tax expenses

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

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

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

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

Total comprehensive income attributable to non-controlling interests

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

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

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

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

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

Total comprehensive income attributable to the equity holders of our Company

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

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

Revenue

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

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

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

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

Income tax expense

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

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

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

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

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

Total comprehensive income attributable to non-controlling interests

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

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

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

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

Total comprehensive income attributable to the equity holders of our Company

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

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

Revenue

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

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

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

Income tax expense

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

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

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

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

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

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

Total comprehensive income attributable to non-controlling interests

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

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

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

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

Total comprehensive income attributable to the equity holders of our Company

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

LIQUIDITY AND CAPITAL RESOURCES

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

Liquidity

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

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

Cash Flows From Operating Activities

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

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

In 2008, our net cash generated from operating activities was RMB265.8 million, and was primarily contributed by our profit before tax of RMB213.6 million, adjusted by interest on bank loans of RMB9.1 million and depreciation and amortisation of RMB13.4 million. The cash inflow was further increased by a decrease in inventories of RMB2.3 million, an increase in trade payables of RMB8.3 million and an increase in other payables and accruals of RMB17.2 million, which was partially offset by increase in trade and bills receivables of RMB2.2 million, and an increase in prepayments, deposits and other receivables of RMB5.8 million. The increase in trade payables and trade and bills receivables were caused by the increase in both revenue and cost of sales. The balance of inventories by the end of 2008 decreased by RMB2.3 million as compared to 2007. The balance of inventories by the end of 2007 was relatively higher because we had completed the construction of a total of 20 production lines in June 2007 and November 2007 in addition to our original 26 production lines at the beginning of 2007. With our production capacity nearly being doubled, our closing inventories of both work in progress and finished goods were relatively higher by the end of 2007. Included in other payables, advances from customers increased from RMB2.4 million in 2007 to RMB13.6 million in 2008. The increase was mainly caused by large amount of orders placed by customers and the deposits paid correspondingly. In order to fulfill our customers' requests, we continued to increase our production capacity in 2009 and we have increased the number of our production lines from 56 at the end of 2008 to 106 as at the Latest Practicable Date.

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

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

Cash Flows From Investing Activities

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

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

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

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

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

Cash Flows From Financing Activities

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

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

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

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

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

NET CURRENT ASSETS/(LIABILITIES)

Net current assets/(liabilities)

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

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

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

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

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

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

Taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

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

CAPITAL EXPENDITURE

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

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

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

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

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

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

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

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

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

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

AVAILABLE-FOR-SALE INVESTMENTS

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

Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房地產開發有限公司) was established in Wuzhou on 3 August 2007 and is principally engaged in the operation and development of real estate, sales of commercial houses, property management, and wholesale and retail of building materials. Upon its establishment, Wuzhou Shenguan Real Estate Development Co., Ltd. (梧州市神冠房

地產開發有限公司) was owned as to 67% by Ms. Zhou, 9% by Mr. Wei, 6% by Mr. He Xiangji (何祥吉先生), 3% by Mr. Ru Xiquan (茹希全先生), 3% by Ms. Cai Yueqing (蔡月卿女士), 3% by Mr. Shi Guicheng (施貴成先生), 3% by Mr. Mo Yunxi (莫運喜先生), 3% by Mr. Li Baowei (黎保偉先生), 2% by an Independent Third Party and 1% by Wuzhou Shenguan, respectively.

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

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

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

EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

INVENTORY ANALYSIS

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

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

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

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

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

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

Inventory turnover days of raw materials decreased during the Track Record Period from 106.7 days in 2006 to 94.7 days for the six months ended 30 June 2009 due to the economies of production associated with our increasing scale of operations. Inventory turnover days of work in progress and finished goods was 7.9 days, 17.7 days, 13.1 days and 12.9 days for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, respectively. The inventory turnover days of work in progress and finished goods was relatively higher in 2007 because of the relatively high level of closing inventories at the end of 2007. In June 2007 and November 2007, we had completed the construction of a total of 20 production lines for sausage casings in addition to our original 26 production lines. As a result of almost doubled production capacity, our closing inventories of both work in progress and finished goods increased by the end of 2007.

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

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

INDEBTEDNESS AND OBLIGATIONS

Interest-Bearing Bank Borrowings

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

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

Notes:

(a) Our short term loans as at 31 December 2006 were secured by our Group's prepaid land, buildings, and plant and machinery situated in the PRC, which had aggregate carrying value of RMB21,409,000. The short-term secured loan as at 31 December 2007 was secured by our Group's letter of credit with carrying value of US$284,000 (approximately RMB2,160,000). Our short term loan as at 30 June 2009 was secured by a prepaid land located in Wuzhou with a carrying value of RMB12,834,000.

(b) Our long term loans as at 31 December 2006, 2007 and 2008 and 30 June 2009 were secured by our Group's prepaid land, buildings and plant and machinery situated in the PRC, which had aggregate carrying values of RMB33,276,000, RMB75,436,000, RMB70,334,000 and RMB95,868,000, respectively.

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

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

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

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

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

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

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

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

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

Contractual Obligations

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

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

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

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

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

We expect to fund such capital commitments principally from cash generated from our operations and net proceeds from the Global Offerings.

Contingent liabilities

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

Off-balance sheet commitment and arrangements

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

Disclaimers

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

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

TRADE AND OTHER RECEIVABLES

Turnover of trade and bills receivables

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

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

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

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

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

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

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

Age of trade receivables

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

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

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

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

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

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

Prepayments, deposits and other receivables

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

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

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

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

TRADE AND OTHER PAYABLES

Turnover of trade payables

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

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

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

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

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

Age of trade payables

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

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

Other payables and accruals

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

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

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

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

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

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

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

RELATED PARTIES BALANCES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The transactions, fund transfer and balances with Wuzhou Sanjian as disclosed in this section will all be terminated and repaid before Listing. Please also refer to the section headed "Connected Transactions" for further information regarding continuing connected transactions of our Group.

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

WORKING CAPITAL

Taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

MARKET RISK

Interest Rate Risk

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

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

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

Foreign Exchange Rate Risk

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

Credit Risk

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

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

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

Inflation

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

Profit Forecast for the year ending 31 December 2009

Unaudited forecast combined profit attributable to equity holders of the Company(1) (3)	not less than RMB279 million (approximately HK$317 million)
Unaudited pro forma forecast earnings per Share on a fully diluted basis(2) (3)	not less than RMB0.17 (approximately HK$0.20)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2009 has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of unaudited pro forma forecast earnings per Share on a fully diluted basis for the year ending 31 December 2009 is based on the above unaudited forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2009 and assumes that a total of 1,600,000,000 Shares were in issue during the entire year, without taking into account any further Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of options which have been granted or may be granted under the Share Options Scheme.

(3) The unaudited forecast combined profit attributable to equity holders of the Company and the unaudited pro forma forecast earnings per Share on a fully diluted basis are converted into Hong Kong dollars at an exchange rate of RMB1 to HK$1.137. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

PROPERTY VALUATION

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

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

(Amounts in RMB'000)

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

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

DIVIDENDS

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

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

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

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

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

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

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

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

DISTRIBUTABLE RESERVES

As at 30 June 2009, our Company had no distributable reserve available for distribution to our shareholders.

Unaudited Pro Forma Adjusted Combined Net Tangible Assets

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with paragraph 4.29 of the Listing Rules is for illustration purposes only, and is set forth here to illustrate the effect of the Global Offering on our combined net tangible assets as at 30 June 2009 as if it had taken place on 30 June 2009.

The unaudited pro forma adjusted combined net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as at 30 June 2009 or any future date following the Global Offering. It is prepared based on our combined net assets as at 30 June 2009 as derived from our combined financial information set forth in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this prospectus.

	Combined net tangible assets attributable to equity holders of the Company as at 30 June 2009	**Add: Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per Share**	
	RMB'000(1)	*RMB'000*(2)	*RMB'000*	*RMB*(3)	*HK$*(4)
Based on an Offer Price of HK$2.10 per Share	162,597	680,232	842,829	0.52	0.59
Based on an Offer Price of HK$3.10 per Share	162,597	1,008,816	1,171,413	0.73	0.83

(1) The combined net tangible assets attributable to equity holders of the Company as at 30 June 2009 was determined as follows:

	RMB'000
Audited combined net assets as set out in Appendix I to this Prospectus	170,177
Less: Non-controlling interests	(5,148)
Combined net assets attributable to equity holders of the Company	165,029
Less: Patent	(2,432)
Combined net tangible assets attributable to equity holders of the Company	162,597

(2) The estimated net proceeds from the Global Offering are based on indicative offer prices of HK$2.10 and HK$3.10 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of any options which have been granted or may be granted under the Share Option Scheme.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 1,600,000,000 Shares are in issue immediately after the completion of the Global Offering but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of any options which have been granted or may be granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted combined net tangible assets per Share is translated into HK$ at exchange rate of RMB1 to HK$1.137. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) As set out in Appendix IV to this Prospectus, the Group's property interests (including prepaid land lease payments, buildings and investment property) were valued at RMB99.0 million as at 31 August 2009, representing a valuation surplus of approximately RMB15.7 million. Had the valuation surplus been recorded in our Company's financial statements, the annual depreciation expense for the year ending 31 December 2009 would increase by approximately RMB0.5 million.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date there were no circumstances that would give rise to the disclosure requirements under Rule 13.13 to 13.19 of the Listing Rules.

NO SIGNIFICANT INTERRUPTIONS

Our Directors confirm that there have been no interruptions in our business that may have a significant effect on our results of operations and financial position in the last 12 months.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since 30 June 2009.