The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this prospectus, a copy of the following Accountants' Report is available for inspection.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

30 September 2009

The Directors
Shenguan Holdings (Group) Limited

Macquarie Capital Securities Limited
China Merchants Securities (HK) Co., Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Track Record Period"), prepared on the basis set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 30 September 2009 (the "Prospectus") in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange").

The Company was incorporated in the Cayman Islands on 24 February 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a corporate reorganization (the "Reorganization"), as more fully explained in the paragraph headed "Corporate Reorganization" in Appendix VII to the Prospectus, the Company became the holding company of the Group on 18 September 2009.

The Group is principally engaged in the manufacture and sale of protein casings for collagen sausages. The Company and its subsidiaries have adopted 31 December as their financial year end date.

Particulars of the subsidiaries comprising the Group as at 30 June 2009 are set out below:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued/registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Excel Gather Limited ("Excel Gather")	Hong Kong 13 February 2009	HK$1	–	100%	Investment holding
Forever Gather Limited ("Forever Gather")	Hong Kong 26 February 2009	HK$1	–	100%	Investment holding
Full Win Consultants Limited	British Virgin Islands ("BVI") 2 January 2009	US$1	100%	–	Investment holding
Jumbo Gain Developments Limited	BVI 2 January 2009	US$1	100%	–	Investment holding
Shenguan Industrial Company Limited ("Shenguan Industrial")(1)	BVI 21 April 2008	US$10,000	100%	–	Investment holding
Shenguan Investments Company Limited ("Shenguan Investments")(1)	Hong Kong 30 April 2008	HK$0.01	–	100%	Dormant
梧州神冠蛋白腸衣有限公司 (Wuzhou Shenguan Protein Casing Co., Ltd.) ("Wuzhou Shenguan")(2)	The People's Republic of China ("PRC") 26 November 2004	RMB84,300,000	–	98.068%	Manufacture and sale of collagen sausage casing
梧州市神冠生物實業開發有限公司 (Wuzhou Shenguan Biological Industrial Development Limited) ("Shenguan Biological")(3)	PRC 8 April 2008	RMB30,000,000	–	98.068%	Manufacture and sale of collagen sausage casing
梧州市神生膠原製品有限公司 (Wuzhou Shensheng Collagen Products Limited) ("Shensheng Jiaoyuan")	PRC 29 April 2009	RMB10,000,000	–	98.068%	Collagen technology consulting services

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued/registered paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
廣西梧州星科電子有限公司 (Guangxi Wuzhou Xingke Electronic Company Limited) ("Wuzhou Xingke")(4)	PRC 31 December 2005	RMB500,000	–	98.068%	Dormant
梧州華強食品有限公司 (Wuzhou Huaqiang Food Company Limited) ("Wuzhou Huaqiang")	PRC 26 May 1993	RMB578,180	–	Note 1	Dormant

(1) No audited financial statements had been prepared for the year ended 31 December 2008 as these subsidiaries had not been involved in any significant business transactions.

(2) The financial statements for the years ended 31 December 2006, 2007 and 2008 were audited by 深圳市鵬城會計師事務所有限公司 (Shenzhen Pengcheng Certified Public Accountants Co., Ltd.) registered in the PRC.

(3) The financial statements for the period from 8 April 2008 (date of incorporation) to 31 December 2008 were audited by 深圳市鵬城會計師事務所有限公司 (Shenzhen Pengcheng Certified Public Accountants Co., Ltd.) registered in the PRC.

(4) The financial statements for the year ended 31 December 2008 were audited by 深圳市鵬城會計師事務所有限公司 (Shenzhen Pengcheng Certified Public Accountants Co., Ltd.) registered in the PRC. As at 30 June 2009, Wuzhou Xingke was in the process of de-registeration.

Note 1: Wuzhou Huaqiang was initially established in the PRC as a Sino-foreign cooperative joint venture on 26 May 1993 and was de-registered on 31 December 2006. The Group had 75% interest in Wuzhou Huaqiang before it was de-registered.

As at the date of this report, no statutory audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not been involved in any significant business transactions other than the Reorganization described in the paragraph headed "Corporate Reorganization" in the Appendix VII to the Prospectus. We have, however, performed our own independent audit of all relevant transactions of the Company since the date of its incorporation.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the combined financial statements of the Company ("Underlying Financial Statements") and in accordance with the basis set out in Section II below. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Directors of the respective companies of the Group are responsible for the preparation and true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. In preparing the Financial Information, it is fundamental that judgements and estimations made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

Procedures performed in respect of the Track Record Period

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures performed in respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the 30 June 2008 Financial Information.

Opinion in respect of the Financial Information of the Track Record Period

In our opinion, the Financial Information for the Track Record Period prepared on the basis of presentation set out in Section II below gives, for the purpose of this report, a true and fair view of the combined results and combined cash flows of the Group of the Track Record Period and of the combined state of affairs of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009.

Review conclusion in respect of the 30 June 2008 Financial Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information does not give a true and fair view of the combined results and combined cash flows of the Group for the six months ended 30 June 2008.

I. FINANCIAL INFORMATION

(a) Combined statements of comprehensive income

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
REVENUE	*4*	178,279	259,291	454,053	194,469	317,198
Cost of sales		(75,678)	(123,082)	(203,971)	(84,762)	(120,774)
Gross profit		102,601	136,209	250,082	109,707	196,424
Other income and gains	*4*	2,579	4,747	3,882	1,943	3,921
Selling and distribution costs		(4,579)	(5,740)	(7,153)	(3,410)	(5,196)
Administrative expenses		(12,952)	(17,550)	(23,109)	(11,220)	(28,061)
Other expenses		(386)	(1,603)	(1,240)	(49)	(86)
Finance costs	*5*	(1,138)	(1,074)	(8,836)	(4,112)	(4,211)
PROFIT BEFORE TAX	*6*	86,125	114,989	213,626	92,859	162,791
Tax	*9*	2,136	13,647	(16,812)	(6,855)	(14,544)
PROFIT FOR THE YEAR/PERIOD		88,261	128,636	196,814	86,004	148,247
Other comprehensive income		–	–	–	–	31
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		88,261	128,636	196,814	86,004	148,278
Attributable to:						
Equity holders of the Company		84,817	120,932	172,853	77,529	129,066
Non-controlling interests		3,444	7,704	23,961	8,475	19,212
		88,261	128,636	196,814	86,004	148,278
DIVIDENDS	*10*	–	100,927	97,634	97,634	187,025

(b) Combined statements of financial position

		At 31 December			At 30 June
		2006	**2007**	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*12*	101,978	154,364	207,898	300,527
Investment property	*13*	140	136	133	131
Prepaid land lease payments	*14*	8,331	8,105	27,479	32,581
Patent	*15*	4,578	3,720	2,861	2,432
Available-for-sale investments	*16*	–	100	–	–
Deferred tax assets	*17*	3,552	17,199	2,908	4,737
Long term prepayments	*18*	20,820	23,555	30,019	71,372
Total non-current assets		139,399	207,179	271,298	411,780
CURRENT ASSETS					
Inventories	*19*	13,398	29,111	26,817	39,816
Trade and bills receivables	*20*	16,630	25,159	27,392	37,285
Prepayments, deposits and other receivables	*21*	5,318	5,621	11,865	10,743
Available-for-sale investments	*16*	–	6,000	–	45,000
Equity investments at fair value through profit or loss	*22*	–	207	–	–
Tax recoverable		–	6,319	–	–
Cash and bank balances	*23*	58,707	57,095	128,535	300,978
Total current assets		94,053	129,512	194,609	433,822
CURRENT LIABILITIES					
Trade payables	*24*	4,225	9,081	17,385	20,820
Other payables and accruals	*25*	20,187	34,111	50,977	135,703
Dividend payable	*26*	14,302	–	–	176,570
Interest-bearing bank borrowings	*27*	13,000	36,052	48,000	163,000
Tax payable		–	–	2,812	9,190
Total current liabilities		51,714	79,244	119,174	505,283
NET CURRENT ASSETS/ (LIABILITIES)		42,339	50,268	75,435	(71,461)

(b) Combined statements of financial position (continued)

		At 31 December			At 30 June
		2006	**2007**	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		181,738	257,447	346,733	340,319
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	*27*	18,000	66,000	53,000	162,000
Deferred income		–	–	3,038	6,961
Deferred tax liabilities	*17*	–	–	–	1,181
Total non-current liabilities		18,000	66,000	56,038	170,142
Net assets		163,738	191,447	290,695	170,177
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	*28*	28,204	28,204	63,125	–
Reserves	*29*	125,727	151,777	186,955	165,029
		153,931	179,981	250,080	165,029
Non-controlling interests		9,807	11,466	40,615	5,148
Total equity		163,738	191,447	290,695	170,177

(c) Combined statements of changes in equity

		Attributable to equity holders of the Company									
	Notes	Issued capital RMB'000 (note 28)	Reserve funds* RMB'000 (note 29(b))	Capital reserves* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000 (note 29(c))	Merger reserve* RMB'000 (note 29(d))	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2006		12,069	5,577	36,297	–	–	–	3,148	57,091	612	57,703
Profit for the year		–	–	–	–	–	–	84,817	84,817	3,444	88,261
Total comprehensive income for the year		–	–	–	–	–	–	84,817	84,817	3,444	88,261
Capital contribution	28(i)	16,834	–	–	–	–	–	–	16,834	957	17,791
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders	28	(699)	–	–	–	(4,112)	–	–	(4,811)	4,811	–
De-registration of a subsidiary	30	–	–	–	–	–	–	–	–	(17)	(17)
Transfer from retained profits		–	8,238	–	–	–	–	(8,238)	–	–	–
At 31 December 2006 and 1 January 2007		28,204	13,815	36,297	–	(4,112)	–	79,727	153,931	9,807	163,738
Profit for the year		–	–	–	–	–	–	120,932	120,932	7,704	128,636
Total comprehensive income for the year		–	–	–	–	–	–	120,932	120,932	7,704	128,636
Dividends	10	–	–	–	–	–	–	(94,882)	(94,882)	(6,045)	(100,927)
Transfer from retained profits		–	568	–	–	–	–	(568)	–	–	–
At 31 December 2007 and 1 January 2008		28,204	14,383	36,297	–	(4,112)	–	105,209	179,981	11,466	191,447
Profit for the year		–	–	–	–	–	–	172,853	172,853	23,961	196,814
Total comprehensive income for the year		–	–	–	–	–	–	172,853	172,853	23,961	196,814
Capital contribution	28(ii)	68	–	–	–	–	–	–	68	–	68
Capitalization of reserves	28(iii)	37,249	(6,356)	(30,893)	–	–	–	–	–	–	–
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders	28	(2,396)	–	–	–	(16,436)	–	–	(18,832)	18,832	–
Dividends	10	–	–	–	–	–	–	(83,990)	(83,990)	(13,644)	(97,634)
Transfer from retained profits		–	18,254	–	–	–	–	(18,254)	–	–	–
At 31 December 2008 and 1 January 2009		63,125	26,281	5,404	–	(20,548)	–	175,818	250,080	40,615	290,695
Profit for the period		–	–	–	–	–	–	129,035	129,035	19,212	148,247
Other comprehensive income		–	–	–	31	–	–	–	31	–	31
Total comprehensive income for the period		–	–	–	31	–	–	129,035	129,066	19,212	148,278
Acquisition of non-controlling interests in Wuzhou Shenguan	28(iv)	10,152	–	–	–	18,391	–	–	28,543	(28,543)	–
Capitalization of reserves	28(v)	9,461	(8,815)	(646)	–	–	–	–	–	–	–
Dividends	10	–	–	–	–	–	–	(160,889)	(160,889)	(26,136)	(187,025)
Distribution to shareholders	29(e)	–	–	–	–	–	(81,771)	–	(81,771)	–	(81,771)
Elimination of registered capital in connection with the Reorganization	28(vi)	(82,738)	–	–	–	–	82,738	–	–	–	–
At 30 June 2009		–	17,466	4,758	31	(2,157)	967	143,964	165,029	5,148	170,177
At 1 January 2008		28,204	14,383	36,297	–	(4,112)	–	105,209	179,981	11,466	191,447
Profit for the period		–	–	–	–	–	–	77,529	77,529	8,475	86,004
Total comprehensive income for the period		–	–	–	–	–	–	77,529	77,529	8,475	86,004
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders	28	(2,396)	–	–	–	(16,436)	–	–	(18,832)	18,832	–
Dividends	10	–	–	–	–	–	–	(83,990)	(83,990)	(13,644)	(97,634)
At 30 June 2008 (unaudited)		25,808	14,383	36,297	–	(20,548)	–	98,748	154,688	25,129	179,817

* *These reserve accounts comprise the combined reserves in the combined statements of financial position.*

(d) Combined cash flow statements

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		86,125	114,989	213,626	92,859	162,791
Adjustments for:						
Interest on bank loans	*5*	2,445	5,164	9,136	4,412	6,521
Bank interest income	*4*	(714)	(924)	(1,277)	(526)	(1,052)
Loss on disposal of items of property, plant and equipment	*6*	31	175	312	–	4
Loss on de-registration of a subsidiary	*6*	52	–	–	–	–
Depreciation	*6*	6,615	9,131	12,169	5,712	8,467
Amortization of prepaid land lease payments	*6*	195	226	379	148	580
Amortization of patent	*6*	858	858	859	430	429
Government grants released		(1,747)	(4,293)	(579)	(414)	(5,336)
		93,860	125,326	234,625	102,621	172,404
Decrease/(increase) in inventories		(5,643)	(15,713)	2,294	(10,929)	(12,999)
Increase in trade and bills receivables		(5,349)	(8,529)	(2,233)	(4,707)	(9,893)
Decrease/(increase) in prepayments, deposits and other receivables		4,224	(303)	(5,841)	(9,119)	1,235
Increase in trade payables		2,066	4,856	8,304	4,671	3,435
Increase/(decrease) in other payables and accruals		(112)	3,570	17,187	2,774	7,985
Receipt of government grants		1,747	4,293	3,617	2,282	9,259
Cash generated from operations		90,793	113,500	257,953	87,593	171,426
Interest received		714	924	1,277	526	1,052
PRC profits tax refunded/(paid)		–	(6,319)	6,610	3,088	(8,814)
Net cash inflow from operating activities		91,507	108,105	265,840	91,207	163,664

(d) Combined cash flow statements (continued)

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net cash inflow from operating activities		91,507	108,105	265,840	91,207	163,664
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(31,497)	(52,584)	(99,721)	(40,471)	(145,468)
Proceeds from disposal of items of property, plant and equipment		284	315	4	–	4
Refund from/(prepayment to) a related party	*18*	(17,951)	–	17,951	–	–
Purchase of available-for-sale investments		–	(6,100)	–	–	(45,000)
Proceeds from disposal of available-for-sale investments		–	–	6,100	6,100	–
Prepayments of land lease payments		(2,504)	(1,800)	(11,187)	–	(7,781)
Decrease/(increase) in equity investments at fair value through profit or loss		–	(207)	207	207	–
Net cash outflow from investing activities		(51,668)	(60,376)	(86,646)	(34,164)	(198,245)
CASH FLOWS FROM FINANCING ACTIVITIES						
Capital contribution	*28*	17,791	–	68	–	–
New bank loans		13,000	88,052	76,875	36,875	332,000
Repayment of bank loans		(23,700)	(17,000)	(77,927)	(19,633)	(108,000)
Interest paid		(2,445)	(5,164)	(9,136)	(4,412)	(6,521)
Dividends paid		(31,055)	(115,229)	(97,634)	–	(10,455)
Net cash inflow/(outflow) from financing activities		(26,409)	(49,341)	(107,754)	12,830	207,024

(d) Combined cash flow statements (continued)

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Net cash inflow/(outflow) from financing activities		(26,409)	(49,341)	(107,754)	12,830	207,024
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		13,430	(1,612)	71,440	69,873	172,443
Cash and cash equivalents at beginning of year/period		45,277	58,707	57,095	57,095	128,535
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		58,707	57,095	128,535	126,968	300,978
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*23*	46,407	57,095	127,035	121,968	292,478
Time deposits with original maturity of less than three months when acquired	*23*	12,300	–	1,500	5,000	8,500
		58,707	57,095	128,535	126,968	300,978

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Shenguan Holdings (Group) Limited (the "Company") is a limited company incorporated in the Cayman Islands. The Company's principal place of business in Hong Kong is located at Unit 2902, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong.

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

2.1 BASIS OF PRESENTATION

Pursuant to a corporate reorganization (the "Reorganization") as more fully explained in the paragraph headed "Corporate Reorganization") in Appendix VII to the prospectus of the Company dated 30 September 2009 (the "Prospectus"), the Company became the holding company of the companies now comprising the Group on 18 September 2009. Since the Company and the companies now comprising the Group are under common control both before and after the completion of the Reorganization, the financial information (the "Financial Information") of the Group for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009 (the "Track Record Period") has been prepared in accordance with the principles of merger accounting.

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

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

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting periods commencing from 1 January 2006, 2007, 2008 and 2009, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Track Record Period. It has been prepared under the historical cost convention, except for equity investments at fair value through profit or loss, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information:

HKFRS 2 (Revised)	*Share-based Payment*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[1]

Apart from the above, the HKICPA has, in October 2008 and in May 2009, issued *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendment to HKFRS 5 is effective for annual periods on or after 1 July 2009 and the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for amendment to Appendix to HKAS 18 has been specified. The remaining amendments, being amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39, are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform with HKFRSs and accounting principles generally accepted in Hong Kong, are set out below:

Basis of combination

The Financial Information incorporates the financial statements of the Company and its subsidiaries now comprising the Group for the Track Record Period. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries during the Track Record Period is accounted for using the purchase method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs in the Track Record Period as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities of businesses are combined using their existing book values. No amount is recognized in respect of goodwill or any excess of the acquirer's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of control combination.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The purchase method of accounting involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

All income, expenses, and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, investment property and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Annual depreciation rate	Residual value
Buildings	3% to 11.3%	3% to 10%
Plant and machinery	6.4% to 19.4%	3% to 10%
Motor vehicles	7.5% to 18%	3% to 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each statement of financial position date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and production equipment under construction, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment property

Investment property is interests in land and building (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is carried at cost including related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment property over lease terms. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of comprehensive income during the financial period in which they are incurred.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date.

Patent

Purchased patent for the technology in manufacturing protein casing for collagen sausage is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of 8 years.

Research and development costs

All research costs are charged as incurred and included in "Cost of sales" to the statement of comprehensive income.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the statement of financial position date.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognized in the statement of comprehensive income. The net fair value gain or loss recognized in the statement of comprehensive income does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognized in the statement of comprehensive income as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognized in the statement of comprehensive income as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the statement of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognized in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortized cost (including interest-bearing bank borrowings)

Financial liabilities including trade payables, other payables and accruals and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "finance costs" in the statement of comprehensive income.

Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Inventories

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

Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the statement of financial position date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

Dividends

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Dividends are simultaneously proposed and declared, because Wuzhou Shenguan's articles of association grant the Directors the authority to declare dividends. Consequently, dividends are recognized immediately as a liability when they are proposed and declared.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

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

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

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

Employee retirement benefit

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rule of the MPF Scheme.

As stipulated by the rules and regulations of the PRC, the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The costs of employee retirement benefit are recognized as cost of sales and administrative expenses in the statement of comprehensive income in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Other borrowing costs are recognized as expenses in the statement of comprehensive income in the period in which they are incurred.

Foreign currencies

The functional currency of the Company is Hong Kong dollar while the presentation currency of the Company for the Financial Information is RMB. Each entity in the Group determines its own functional currency and items included in the Financial Information of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.3 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainly about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Income tax

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realize.

Impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of trade receivables and prepayments, deposits and other receivables. The identification of doubtful debts requires the Directors' estimates. Where the expectation is different from the original estimate, the difference will impact on the carrying values of the trade receivables and prepayments, deposits and other receivables and doubtful debt expenses in the period in which the estimate has been changed.

Write-down of inventories to net realizable value

Write-down of inventories to net realizable value is made based on the estimated net realizable value of the inventories. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back in the period in which such estimate has been changed.

Useful lives of intangible assets

The Group's management determines the estimated useful lives, and related amortization charges for its intangible assets. This estimate is based on the management expectation on the actual useful lives of the intangible assets. Management will increase the amortization charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in the future periods.

3. SEGMENT INFORMATION

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

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

Information about products

The revenue of the two major products are as below:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Western-style collagen sausage casing	122,578	198,791	395,511	170,087	291,673
Chinese-style collagen sausage casing	55,701	60,500	58,542	24,382	25,525
	178,279	259,291	454,053	194,469	317,198

Information about geographical areas

Since over 90% of the Group's revenue is derived from customers based in the PRC and all the Group's identifiable assets and liabilities are located in the PRC, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments.*

Information about major customers

For the year ended 31 December 2006, revenue from two of the Group's customers amounting to RMB24,711,000 and RMB22,861,000 had individually accounted for over 10% of the Group's total revenue. Similarly, for the year ended 31 December 2007, revenue generated from two of the Group's customers amounting to RMB51,678,000 and RMB28,756,000 had individually accounted for over 10% of the Group's total revenue. For the year ended 31 December 2008, revenue from one customer of the Group amounting to RMB171,480,000 had individually accounted for over 10% of the Group's total revenue. For the six months ended 30 June 2008, revenue from one customer of the Group amounting to RMB81,489,000 had individually accounted for over 10% of the Group's total revenue. For the six months ended 30 June 2009, revenue from one customer of the Group amounting to RMB140,854,000 had individually accounted for over 10% of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced good sold, after allowances for returns and trade discounts during the Track Record Period.

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

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue					
Sale of goods	178,279	259,291	454,053	194,469	317,198
Other income, net					
Bank interest income	714	924	1,277	526	1,052
Sales of dried meat products	1,383	2,537	1,659	875	703
Gain/(loss) on disposal of scrap materials	91	(437)	119	66	126
Rental income	34	11	11	6	5
Service income	357	609	55	(26)	35
Government grants*	–	–	129	64	1,776
Others	–	1	4	5	–
	2,579	3,645	3,254	1,516	3,697
Gains					
Gain on disposal of equity investments at fair value through profit or loss	–	1,102	539	423	–
Gain on disposal of available-for-sale investments	–	–	89	4	224
	–	1,102	628	427	224
	2,579	4,747	3,882	1,943	3,921

* *Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land, and plant and equipment. The government grants received relating to assets were recognized as deferred income and released to the other income over the expected useful lives of the relevant assets. The government grants received for the development of business were recognized as other income when conditions of these government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2009.*

5. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on bank loans	2,445	5,164	9,136	4,412	6,521
Less: Government grants*	(1,307)	(4,090)	(300)	(300)	(2,310)
	1,138	1,074	8,836	4,112	4,211

* *Various government grants have been received in respect of interest expenses incurred for the acquisition of certain plant and equipment. The government grants received were deducted against related interest expenses when conditions of government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2009.*

6. PROFIT BEFORE TAX

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

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of inventories sold		30,298	45,416	84,262	30,206	40,019
Depreciation:						
Property, plant and equipment	*12*	6,611	9,127	12,166	5,711	8,465
Investment property	*13*	4	4	3	1	2
		6,615	9,131	12,169	5,712	8,467
Loss on disposal of items of property, plant and equipment		31	175	312	–	4
Loss on de-registration of a subsidiary	*30*	52	–	–	–	–
Amortization of patent*	*15*	858	858	859	430	429
Amortization of prepaid land lease payments	*14*	195	226	379	148	580
Foreign exchange differences, net		321	951	425	306	117
Impairment of trade receivables	*20*	270	1,398	1,267	–	–
Reversal of impairment of other receivables		–	–	(339)	–	–
Research and development costs:						
Current year expenditure		1,556	11,096	23,102	17,230	11,686
Less: Government grants released**		(440)	(203)	(150)	(50)	(1,250)
		1,116	10,893	22,952	17,180	10,436
Staff costs (including directors' remuneration *(note 7)*):						
Wages and salaries		16,371	21,187	29,970	10,943	18,352
Retirement benefit contributions		957	1,331	3,756	1,469	2,985
		17,328	22,518	33,726	12,412	21,337
Minimum lease payments under operating leases in respect of buildings		54	72	42	24	223
Auditors' remuneration		53	50	40	20	–

* *The amortization of patent for the Track Record Period is included in "Administrative expenses" on the face of the combined statement of comprehensive income.*

** *Various government grants have been received for setting up research activities for improving the quality of protein casing manufacturing by the local government within the Guangxi Province, the PRC. The government grants released have been deducted against the research and development costs to which they related when the conditions of government grants were fulfilled. Government grants received for which related expenditure has not yet been undertaken were included in deferred income in the combined statement of financial position. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2009.*

7. DIRECTORS' REMUNERATION

Directors' remuneration for the Track Record Period, disclosed pursuant to the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	269	269	270	136	136
Discretionary performance related bonuses	3,201	3,966	4,136	1,806	3,592
Retirement benefit contributions	8	9	11	5	5
	3,478	4,244	4,417	1,947	3,733
	3,478	4,244	4,417	1,947	3,733

(a) Non-executive directors and independent non-executive directors

There were no fees and other emoluments payable to non-executive directors and independent non-executive directors during the Track Record Period.

(b) The remuneration of the executive directors for the Track Record Period is set out below:

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006					
Executive directors:					
Ms. Zhou Yaxian (“Ms. Zhou”)	–	122	1,455	2	1,579
Ms. Cai Yueqing (蔡月卿女士)	–	49	582	2	633
Mr. Shi Guicheng (施貴成先生)	–	49	582	2	633
Mr. Ru Xiquan (茹希全先生)	–	49	582	2	633
	–	269	3,201	8	3,478
Year ended 31 December 2007					
Executive directors:					
Ms. Zhou	–	122	1,803	3	1,928
Ms. Cai Yueqing (蔡月卿女士)	–	49	721	2	772
Mr. Shi Guicheng (施貴成先生)	–	49	721	2	772
Mr. Ru Xiquan (茹希全先生)	–	49	721	2	772
	–	269	3,966	9	4,244
Year ended 31 December 2008					
Executive directors:					
Ms. Zhou	–	123	1,880	3	2,006
Ms. Cai Yueqing (蔡月卿女士)	–	49	752	3	804
Mr. Shi Guicheng (施貴成先生)	–	49	752	3	804
Mr. Ru Xiquan (茹希全先生)	–	49	752	2	803
	–	270	4,136	11	4,417

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2008 (Unaudited)					
Executive directors:					
Ms. Zhou	–	61	822	2	885
Ms. Cai Yueqing (蔡月卿女士)	–	25	328	1	354
Mr. Shi Guicheng (施貴成先生)	–	25	328	1	354
Mr. Ru Xiquan (茹希全先生)	–	25	328	1	354
	–	136	1,806	5	1,947
Six months ended 30 June 2009					
Executive directors:					
Ms. Zhou	–	61	1,633	2	1,696
Ms. Cai Yueqing (蔡月卿女士)	–	25	653	1	679
Mr. Shi Guicheng (施貴成先生)	–	25	653	1	679
Mr. Ru Xiquan (茹希全先生)	–	25	653	1	679
	–	136	3,592	5	3,733

During the Track Record Period, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Track Record Period included four Directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one non-director, highest paid employee during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, allowances and benefits in kind	49	49	49	25	25
Performance related bonuses	582	721	752	328	653
Retirement benefit contributions	2	2	3	1	1
	633	772	804	354	679

The number of non-director, highest paid employee whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008** (Unaudited)	**2009**
Nil to RMB1,000,000	1	1	1	1	1

During the Track Record Period, no remuneration was paid by the Group to any of the employees as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Track Record Period.

Wuzhou Shenguan is located in Wuzhou, Guangxi in the Western Region of China and is subject to the region's preferential 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).

In accordance with the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (Zhuxiling [1991] No. 45 Article 8), Foreign Invested Enterprise engages in manufacturing is exempted from 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. Since Wuzhou Shenguan is engaged in the manufacture of protein products, it is entitled to the EIT holiday.

Pursuant to the Circular on the Implementation of Transitional Preferential Enterprise Income Tax Policies (Guo Fa [2007] No. 39), enterprises entitled to EIT holiday of "two-year exemption and three-year half deduction" shall continue to enjoy the preferential tax treatment following the implementation of the new Law of the People's Republic of China on Enterprise Income Tax which came into force on 1 January 2008. The preferential tax policies for the development of western regions which allow a preferential EIT rate of 15% shall continue to apply. Wuzhou Shenguan had successfully obtained approval in 2008 on grandfathering its preferential tax treatment from the State Tax Bureau of Wanxiu District, Wuzhou City.

Wuzhou Shenguan's first profit-making year was the year ended 31 December 2005 which was also the first year of its tax holiday. Accordingly, it was exempted from EIT for the two years ended 31 December 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.

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

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Group:					
Current tax charge for the year/period					
– PRC	–	–	2,521	–	15,192
Deferred tax *(note 17)*	(2,136)	(13,647)	14,291	6,855	(648)
Total tax charge/(credit) for the year/period	(2,136)	(13,647)	16,812	6,855	14,544

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

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

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

Note:

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

10. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

The dividends paid by the Company's subsidiary to its then shareholders during the Track Record Period was as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Dividends	–	100,927	97,634	97,634	187,025

Subsequent to 30 June 2009, in September 2009, the Company's subsidiaries have declared dividends of RMB140.3 million to their then shareholders which will be fully settled on or before Listing.

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the preparation of the results of the Group for the Track Record Period on the combined basis as disclosed in note 2.1 above.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2006, net of accumulated depreciation	30,582	43,667	1,049	1,494	76,792
Additions	346	2,247	861	28,658	32,112
Disposals	(263)	(25)	(27)	–	(315)
Depreciation provided during the year	(1,533)	(4,858)	(220)	–	(6,611)
Transfers	7,418	18,449	–	(25,867)	–
At 31 December 2006 and at 1 January 2007, net of accumulated depreciation	36,550	59,480	1,663	4,285	101,978
Additions	618	3,022	3,304	55,059	62,003
Disposals	(315)	(161)	(14)	–	(490)
Depreciation provided during the year	(1,887)	(6,855)	(385)	–	(9,127)
Transfers	13,105	45,196	–	(58,301)	–
At 31 December 2007 and at 1 January 2008, net of accumulated depreciation	48,071	100,682	4,568	1,043	154,364
Additions	2,844	5,249	1,864	56,059	66,016
Disposals	(157)	(157)	(2)	–	(316)
Depreciation provided during the year	(2,202)	(9,434)	(530)	–	(12,166)
Transfers	16,951	34,144	89	(51,184)	–
At 31 December 2008 and at 1 January 2009, net of accumulated depreciation	65,507	130,484	5,989	5,918	207,898
Additions	1,138	6,260	540	93,164	101,102
Disposals	–	(3)	(5)	–	(8)
Depreciation provided during the period	(1,394)	(6,731)	(340)	–	(8,465)
Transfers	486	50,231	–	(50,717)	–
At 30 June 2009, net of accumulated depreciation	65,737	180,241	6,184	48,365	300,527
At 31 December 2006:					
Cost	47,070	85,237	2,782	4,285	139,374
Accumulated depreciation	(10,520)	(25,757)	(1,119)	–	(37,396)
Net carrying amount	36,550	59,480	1,663	4,285	101,978
At 31 December 2007:					
Cost	60,444	132,405	5,899	1,043	199,791
Accumulated depreciation	(12,373)	(31,723)	(1,331)	–	(45,427)
Net carrying amount	48,071	100,682	4,568	1,043	154,364
At 31 December 2008:					
Cost	80,030	171,603	7,783	5,918	265,334
Accumulated depreciation	(14,523)	(41,119)	(1,794)	–	(57,436)
Net carrying amount	65,507	130,484	5,989	5,918	207,898
At 30 June 2009:					
Cost	81,654	228,021	8,182	48,365	366,222
Accumulated depreciation	(15,917)	(47,780)	(1,998)	–	(65,695)
Net carrying amount	65,737	180,241	6,184	48,365	300,527

At 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group's buildings and plant and machinery with net book values of RMB50,418,000, RMB67,137,000, RMB62,229,000 and RMB89,233,000, respectively, were pledged to secure bank loans granted to the Group (note 27).

13. INVESTMENT PROPERTY

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period, net of accumulated depreciation	144	140	136	133
Depreciation provided during the year/period	(4)	(4)	(3)	(2)
At end of year/period, net of accumulated depreciation	140	136	133	131
At end of year/period				
Cost	150	150	150	150
Accumulated depreciation	(10)	(14)	(17)	(19)
Net carrying amount	140	136	133	131

The Group's investment property is situated in the PRC and is held under a long term lease term.

The Group's investment property was valued at 31 August 2009 by Debenham Tie Leung Limited, independent professionally qualified valuers at RMB240,000, by reference to market evidence of transaction prices for similar properties. The investment property is leased to a third party under an operating lease, further summary details of which are included in note 33(a) to this report.

14. PREPAID LAND LEASE PAYMENTS

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	8,577	8,525	8,299	28,076
Additions during the year/period	143	–	20,156	5,795
Recognized during the year/period	(195)	(226)	(379)	(580)
Carrying amount at end of year/period	8,525	8,299	28,076	33,291
Current portion included in prepayments, deposits and other receivables	(194)	(194)	(597)	(710)
Non-current portion	8,331	8,105	27,479	32,581

The leasehold land is held under medium term leases and is situated in the PRC.

At 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group's prepaid land lease payments with carrying amounts of RMB4,267,000, RMB8,299,000, RMB8,105,000 and RMB19,469,000, respectively, were pledged to secure bank loans granted to the Group (note 27).

15. PATENT

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period, net of accumulated amortization	5,436	4,578	3,720	2,861
Amortization provided during the year/period	(858)	(858)	(859)	(429)
At end of year/period, net of accumulated amortization	4,578	3,720	2,861	2,432
At end of year/period				
Cost	6,867	6,867	6,867	6,867
Accumulated amortization	(2,289)	(3,147)	(4,006)	(4,435)
Net carrying amount	4,578	3,720	2,861	2,432

16. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments consist of investments in financial products which were designated as available-for-sale financial assets. They were not stated at fair value but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market and, in the opinion of the Directors, the fair value estimate cannot be measured reliably.

The available-for-sale investment as at 30 June 2009 was fully redeemed above cost on 10 July 2009.

17. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Track Record Period are as follows:

Deferred tax assets

	Impairment provision against trade receivables	FEIT credit	Deferred government grants	Depreciation allowance in excess of related depreciation	Accrued salary	Loss available for offsetting against future taxable profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	886	–	–	530	–	–	1,416
Deferred tax credited to the combined statement of comprehensive income *(note 9)*	89	1,916	–	131	–	–	2,136
At 31 December 2006 and 1 January 2007	975	1,916	–	661	–	–	3,552
Deferred tax credited to the combined statement of comprehensive income *(note 9)*	427	12,741	–	479	–	–	13,647
At 31 December 2007 and 1 January 2008	1,402	14,657	–	1,140	–	–	17,199
Deferred tax credited/(charged) to the combined statement of comprehensive income *(note 9)*	(94)	(14,657)	–	(59)	–	519	(14,291)
At 31 December 2008 and 1 January 2009	1,308	–	–	1,081	–	519	2,908
Deferred tax credited/(charged) to the combined statement of comprehensive income *(note 9)*	78	–	1,000	45	1,225	(519)	1,829
At 30 June 2009	1,386	–	1,000	1,126	1,225	–	4,737

Deferred tax liabilities

	Withholding tax
	RMB'000
At 1 January 2006, 31 December 2006, 2007 and 2008, and 1 January 2009	–
Deferred tax charged to the combined statement of comprehensive income *(note 9)*	1,181
At 30 June 2009	1,181

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 the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

18. LONG TERM PREPAYMENTS

Included in the Group's long term prepayments as at 31 December 2006 and 2007 was a prepayment of RMB17,951,000 to Guangxi Wuzhou Sanjian Medicine Co., Ltd. ("Wuzhou Sanjian") for the acquisition of certain assets including land and building, plants and machinery, construction in progress, trademarks and inventories from Wuzhou Sanjian. The acquisition was terminated on 31 August 2008 and the prepayment was fully refunded in September 2008.

19. INVENTORIES

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	11,627	18,928	22,305	27,338
Work in progress	1,126	2,951	2,040	2,653
Finished goods	645	7,232	2,472	9,825
	13,398	29,111	26,817	39,816

20. TRADE AND BILLS RECEIVABLES

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

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group has provided impairment loss on trade receivables based on past experience of collecting payments. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at each of the statement of financial position dates during the Track Record Period, based on the invoice date and net of provision, is as follows:

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

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

		At 31 December			At 30 June
		2006	**2007**	**2008**	**2009**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period		2,683	2,953	4,300	5,567
Impairment loss recognized	*6*	270	1,398	1,267	–
Amounts written off as uncollectible		–	(51)	–	–
At end of year/period		2,953	4,300	5,567	5,567

Included in the above provision for impairment of trade receivables were provisions for individually impaired trade receivables of RMB2,953,000, RMB4,300,000, RMB5,567,000 and RMB5,567,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively with the same amounts as gross carrying amounts. The individually impaired trade receivables relate to customers that were in financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

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

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	11,125	16,873	17,609	29,278
Less than 1 month past due	660	2,868	4,657	2,564
1 to 2 months past due	1,311	1,601	2,293	1,179
Over 2 months past due	1,987	3,151	2,238	2,672
	15,083	24,493	26,797	35,693

Due from related parties

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
C.T. Company	671	–	–	823
Exceltech Enterprise ("Exceltech")	876	75	595	769
	1,547	75	595	1,592

The amounts due from C.T. Company and Exceltech, then shareholders of Wuzhou Shenguan before Reorganization were unsecured, non-interest-bearing and have a repayment term of 60 days, which was on term similar to that offered to other major customers.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	2,768	867	9,873	8,965
Deposits and other receivables	2,550	4,754	1,992	1,778
	5,318	5,621	11,865	10,743

None of the above is either past due or impaired. Financial assets included in the above balance relate to receivables for which there were no recent history of default.

Included in the Group's deposits and other receivables is an amount due from a related party, whose particulars are disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from Wuzhou Sanjian *(Note)*	1,652	4,022	–	–
Maximum amount outstanding during the year/period	1,652	4,879	7,119	–

Note: Wuzhou Sanjian is controlled by the spouse of Ms. Zhou, a Director. The balance is unsecured, interest-free and has no fixed terms of repayment.

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The equity investments as at 31 December 2007 were equity investments listed on the Shanghai Stock Exchange and classified as held for trading, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

23. CASH AND BANK BALANCES

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	46,407	57,095	127,035	292,478
Time deposits	12,300	–	1,500	8,500
	58,707	57,095	128,535	300,978

At 31 December 2006, 2007 and 2008 and 30 June 2009, the Group's cash and bank balances denominated in RMB were RMB58,707,000, RMB57,095,000, RMB128,467,000 and RMB292,903,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for periods of three months, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks in the PRC with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the trade payables as at each of the statement of financial position date during the Track Record Period is as follows:

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

The trade payables are non-interest-bearing and are normally settled in 60-day term.

Included in the Group's trade payables as at 31 December 2006, 2007 and 2008 and 30 June 2009 were a trade payable to Wuzhou Junye Trademark Printing Material Co., Ltd. ("Wuzhou Junye Printing Material") amounting to RMB88,000, RMB177,000, RMB203,000 and RMB212,000, respectively. Wuzhou Junye Printing Material is controlled by the spouse of Ms. Zhou, a Director. The balance is unsecured, interest-free and is repayable within 20 days after receipt of goods.

25. OTHER PAYABLES AND ACCRUALS

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	4,456	2,377	13,553	3,864
Accruals	9,406	12,192	17,224	21,823
Other payables	6,325	19,355	19,716	17,101
Due to related parties	–	187	484	92,915
	20,187	34,111	50,977	135,703

Other payables are non-trade, unsecured and non-interest-bearing and have terms of one to nine months.

Due to related parties:

		At 31 December			At 30 June
		2006	2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
C.T. Company	*(a), (d)*	–	187	234	3,382
Glories Site Limited ("Glories Site")	*(b)*	–	–	–	53,503
Rich Top Future Limited ("Rich Top Future")	*(b)*	–	–	–	28,238
Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan")	*(c)*	–	–	–	909
Ms. Zhou	*(d)*	–	–	–	1,409
Exceltech	*(d)*	–	–	–	5,159
Wuzhou Sanjian	*(e)*	–	–	250	315
		–	187	484	92,915

Notes:

(a) The amount due to C.T. Company, a then shareholder of Wuzhou Shenguan before Reorganization, is unsecured and interest-free. The balances as at 31 December 2007 and 2008 are repayable in accordance with the terms outlined in the commission agreement.

(b) As part of the Reorganization, Glories Site and Rich Top Future, shareholders of the Company, had loaned RMB53.5 million and RMB28.2 million to Forever Gather and Excel Gather, respectively to acquire 97% equity interests in Wuzhou Shenguan. The balances are unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding loan balances as at 30 June 2009 will be capitalized before the listing of the Company.

(c) The amount due to Hong Kong Shenguan, a then shareholder of Wuzhou Shenguan before Reorganization, represented expenses paid by Hong Kong Shenguan on the Group's behalf. The balance is unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding balance as at 30 June 2009 will be settled by cash and by capitalization on or before the listing of the Company.

(d) As at 30 June 2009, the amounts due to Ms. Zhou, a Director and C.T. Company and Exceltech, represented expenses paid by them on the Group's behalf and advances from them to the Group as operating funds in Hong Kong. The balances are unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding balances as at 30 June 2009 will be settled by cash and by capitalization on or before the listing of the Company.

(e) The balance due to Wuzhou Sanjian, a company controlled by the spouse of Ms. Zhou, a Director is unsecured, interest-free and repayable on demand. The Directors confirm that the outstanding balance as at 30 June 2009 will be settled before the listing of the Company.

26. DIVIDEND PAYABLE

The Directors confirm that the outstanding dividend payable as at 30 June 2009 will be settled on or before the listing of the Company.

27. INTEREST-BEARING BANK BORROWINGS

	At 31 December									At 30 June		
	Effective interest rate	Maturity	2006	Effective interest rate	Maturity	2007	Effective interest rate	Maturity	2008	Effective interest rate	Maturity	2009
	(%)		RMB'000	(%)		RMB'000	(%)		RMB'000	(%)		RMB'000
Current												
Bank loans:												
– secured *(note (a))*	6.12	2007	13,000	7.8	2008	2,052			–	5.76	2009-2010	20,000
– unsecured			–	6.57-8.22	2008	29,000	5.58-5.84	2009	20,000	4.78-5.31	2009-2010	130,000
Current portion of long term bank loans:												
– secured *(note (b))*			–			–	6.34-8.51	2009	18,000	5.94	2010	13,000
– unsecured			–	7.56	2008	5,000	7.02	2009	10,000			–
			13,000			36,052			48,000			163,000
Non-current												
Bank loans:												
– secured *(note (b))*	6.73-7.13	2009	18,000	6.93-8.42	2009-2011	51,000	7.74-8.32	2010-2011	33,000	5.40-5.76	2010-2011	32,000
– unsecured			–	7.56	2009	15,000	7.02	2010	20,000	5.40-5.76	2011-2014	130,000
			18,000			66,000			53,000			162,000
			31,000			102,052			101,000			325,000

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analyzed into:				
Bank loans repayable:				
Within one year	13,000	36,052	48,000	163,000
In the second year	–	33,000	33,000	30,000
In the third to fifth years, inclusive	18,000	33,000	20,000	132,000
	31,000	102,052	101,000	325,000

Notes:

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

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

(c) All borrowings are denominated in RMB.

The carrying amounts of the Group's current and floating rate borrowings approximate to their fair values. The carrying amounts and fair values of the Group's fixed rate borrowings are as follows:

	Carrying amounts				Fair values			
	At 31 December			At 30 June	At 31 December			At 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fixed rate bank loans	13,000	12,052	–	90,000	12,831	12,273	–	89,805

28. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on 24 February 2009 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each, one of which was allotted and issued nil paid to the subscriber on the same date. Further details on the Company's share capital are set out Appendix VI to the Prospectus.

For the purpose of this report, the issued capital of the Group as at 31 December 2006, 2007 and 2008 represented the aggregate amount of paid-in capital of the companies comprising the Group attributable to equity holders of the Company at the respective dates, after elimination of investments in subsidiaries. The issued capital of the Group as at 30 June 2009 represented the issued capital of the Company.

The movements in the issued capital of the Group are as follows:

	Notes	Attributable to equity holders of the Company RMB'000	Attributable to non-controlling interests RMB'000	Paid-in capital RMB'000
At 1 January 2006		12,069	140	12,209
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders		(699)	699	–
Capital contribution	*(i)*	16,834	957	17,791
At 31 December 2006 and 2007 and 1 January 2008		28,204	1,796	30,000
Disposal of interests in Wuzhou Shenguan to non-controlling shareholders		(2,396)	2,396	–
Capital contribution	*(ii)*	68	–	68
Capitalization of reserves	*(iii)*	37,249	6,051	43,300
At 31 December 2008 and 1 January 2009		63,125	10,243	73,368
Acquisition of non-controlling interests in Wuzhou Shenguan	*(iv)*	10,152	(10,152)	–
Capitalization of reserves	*(v)*	9,461	1,539	11,000
Elimination of registered capital in connection with the Reorganization	*(vi)*	(82,738)	(1,630)	(84,368)
At 30 June 2009		–	–	–

Notes:

(i) Pursuant to the memorandum of association of Wuzhou Shenguan, additional capital in the form of cash of RMB10,656,000 and RMB7,135,000 were injected by shareholders on 17 July 2006 and 1 September 2006, respectively.

(ii) On 21 April 2008, Shenguan Industrial was incorporated in the BVI with limited liability with an authorized capital of US$50,000 divided into 50,000 shares of US$1 each. On 29 August 2008, 10,000 shares in Shenguan Industrial were allotted and issued to Shengguan Limited, a fellow subsidiary of the Company, at par.

(iii) On 27 June 2008, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB30,000,000 to RMB73,300,000 by the conversion of the capital reserves of RMB35,912,000 and the reserve funds of RMB7,388,000 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited ("Wuzhou Xiansheng") contributed RMB19,394,000, RMB8,751,000, RMB5,759,000 and RMB9,396,000, respectively, by the capitalization of their respective share in the capital reserves and reserve funds of Wuzhou Shenguan. Their respective interests in Wuzhou Shenguan remained unchanged.

(iv) Pursuant to a share transfer agreement dated 26 May 2009, Wuzhou Xiansheng (which is 64.4% held by non-controlling shareholders) transferred its 18.7% equity interest in Wuzhou Shenguan to Hong Kong Shenguan at a consideration of RMB15,764,000.

(v) On 1 June 2009, the Wuzhou Government approved the increase in the registered capital of Wuzhou Shenguan from RMB73,300,000 to RMB84,300,000 by the conversion of the capital reserves of RMB752,000 and the reserve funds of RMB10,248,000 into registered capital. Each of Hong Kong Shenguan, Exceltech, C.T. Company and Wuzhou Xiansheng contributed RMB4,927,000, RMB2,223,000, RMB1,463,000 and RMB2,387,000, respectively, by the capitalization of their respective share in the capital reserves and reserve funds of Wuzhou Shenguan in proportion to their respective capital contributions to Wuzhou Shenguan. Their respective interests in Wuzhou Shenguan remained unchanged.

(vi) On 24 February 2009, the Company was incorporated in the Cayman Islands with an authorized share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each, one of which was allotted and issued at nil paid to the subscriber. On the same date, the nil paid share was transferred from the subscriber to Ms. Zhou.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the Track Record Period are presented in the combined statement of changes in equity on page I-8 of this report.

(b) Reserve funds

In accordance with the Law of the PRC for Enterprise with Foreign Investments and the articles of association of subsidiaries of the Group established in the PRC, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve funds before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve funds should not be less than 10% of the net profits. When the balance of the reserve funds reaches 50% of the paid-up capital, no further appropriations are required to be made. Upon approval obtained from the board of directors, the reserve funds can be used to offset accumulated deficits or to increase the registered capital.

(c) Other reserve

Other reserve represents the difference between the amounts of consideration and carrying values of non-controlling interests arising from the acquisition of the interests from and disposal of interests to non-controlling shareholders.

(d) Merger reserve

Merger reserve represents the difference between the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the Reorganization as detailed in note 2.1.

(e) Distribution to shareholders

Pursuant to the share transfer agreements dated 27 May 2009, Exceltech, C.T. Company and Hong Kong Shenguan transferred their respective equity interests of 20.21%, 13.30% and 63.49% in Wuzhou Shenguan to Excel Gather and Forever Gather at a total consideration of RMB81,771,000.

30. DE-REGISTRATION OF A SUBSIDIARY

Wuzhou Huaqiang, which was dormant, was de-registered on 31 December 2006.

	Note	*RMB'000*
Net assets of Wuzhou Huaqiang:		
Other receivables		69
Non-controlling interests		(17)
Loss on de-registration of a subsidiary	*6*	52

No cash movement was resulted from the de-registration of Wuzhou Huaqiang.

31. CONTINGENT LIABILITIES

At each of the statement of financial position dates of the Track Record Period, the Group had no significant contingent liabilities.

32. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group are included in notes 12, 14 and 27 to this report.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its property under an operating lease arrangement, with the lease negotiated for one year.

At each of the statement of financial position dates during the Track Record Period, the Group had total future minimum lease receivables under the non-cancellable operating lease with its tenant falling due as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	6	–

(b) As lessee

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

At each of the statement of financial position dates during the Track Record Period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at each of the statement of financial position dates of the Track Record Period:

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

35. RELATED PARTY DISCLOSURES

(a) In addition to note 18 to this report, the Group had the following transactions with related parties. In the opinion of the Directors except for the transactions with Wuzhou Sanjian which will be discontinued after listing, all of the remaining transactions were continuing transactions. These transactions were based on mutual negotiations and agreements between the Group and the related parties.

Name of related parties	Nature of transactions	Notes	Year ended 31 December 2006	2007	2008	Six months ended 30 June 2008	2009
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Then shareholders of Wuzhou Shenguan before Reorganization							
C.T. Company	Sales of products	*(i)*	2,630	5,339	887	186	1,057
	Commission paid	*(ii)*	112	182	293	121	275
Exceltech	Sales of products	*(i)*	2,584	4,439	3,104	1,850	781
Related companies							
Wuzhou Sanjian	Sales of products	*(i)*	1	6	–	–	–
	Sales of materials	*(iii)*	107	96	412	243	243
	Purchases of materials	*(iv)*	7	648	795	230	355
	Rental of boiler	*(v)*	105	110	130	70	20
Wuzhou Junye Printing Material	Purchases of packing materials	*(iv)*	2,250	3,267	6,245	2,569	5,184

Notes:

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

(ii) The commission was calculated based on 1.9% to 2.3% of the transaction value on the sales of products to those overseas customers arranged by C.T. Company.

(iii) The sales of materials were carried out at cost.

(iv) The purchases of raw materials and packing materials were carried out at market prices.

(v) Terms on the rental of boiler from the related company were mutually agreed between the parties.

(b) Balances with related parties

Balances with related parties are detailed in notes 18, 20, 21, 24 and 25 to this report.

(c) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, allowances and benefits in kind	318	319	320	160	361
Performance related bonuses	3,783	4,687	4,888	2,135	4,247
Retirement benefit contributions	10	10	14	6	11
Total compensation paid to key management personnel	4,111	5,016	5,222	2,301	4,619

Further details of directors' emoluments are included in note 7 to this report.

36. FINANCIAL INSTRUMENTS BY CATEGORY

Other than unlisted equity investments being classified as available-for-sale investments and equity investments at fair value through profit or loss, as disclosed in notes 16 and 22 to this report, all financial assets and liabilities of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 are loans and receivables, and financial liabilities stated at amortized cost, respectively.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarized below.

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

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

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

Foreign currency risk

Foreign currency risk means the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

The Group's businesses are mainly located in the PRC and are mainly transacted and settled in RMB. Accordingly, the Directors considered that the Group's foreign currency exchange risk is insignificant. Certain sales and purchases are settled in other currencies including United States dollars. The fluctuation of the exchange rates of such currencies against RMB will affect the Group's results of operations.

All of the Group's turnover and substantially all of the Group's operating expenses are denominated in RMB, which is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currencies may restrict the ability of the Group's PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other amounts to the Group.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where RMB is to be converted into foreign currencies and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

Currently, the Group's PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to the shareholders' of the PRC subsidiaries, with the prior approval of the State Administration for Foreign Exchange. The Group's PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange, this could affect the Group's subsidiaries' ability to obtain the required foreign currency amounts through debt or equity financing, including by means of loans or capital contributions from the Company.

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions in an effort to reduce the Group's exposure to foreign currency exchange risks. While the Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all.

A reasonably possible change of 5% in the exchange rate between United States dollars and RMB would have no material impact on the Group's profit or loss during the Track Record Period and there would be no impact on the Group's equity.

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20.

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate finance to repay the debt related to financial instruments. Liquidity risk may arise from the inability to dispose of financial assets promptly, counterparty being unable to repay its contracted debt obligations, the repayment of debts before the maturity dates of debt obligations, or the inability to generate the expected cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In the opinion of the Directors, most of the borrowings that mature within one year are able to renew and the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

The maturity profile of the Group's financial liabilities as at each of the statement of financial position dates during the Track Record Period, based on the contractual undiscounted payments, was as follows:

	At 31 December 2006			
	Within one year or on demand	**In the second year**	**In the third to fifth years, inclusive**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	15,071	1,480	18,576	35,127
Trade payables	4,225	–	–	4,225
Other payables and accruals	20,187	–	–	20,187
Dividend payable	14,302	–	–	14,302
	53,785	1,480	18,576	73,841

	At 31 December 2007			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	42,533	35,944	34,631	113,108
Trade payables	9,081	–	–	9,081
Other payables and accruals	34,111	–	–	34,111
	85,725	35,944	34,631	156,300

	At 31 December 2008			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	53,660	34,911	20,016	108,587
Trade payables	17,385	–	–	17,385
Other payables and accruals	50,977	–	–	50,977
	122,022	34,911	20,016	176,949

	At 30 June 2009			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	178,202	38,431	142,328	358,961
Trade payables	20,820	–	–	20,820
Other payables and accruals	135,703	–	–	135,703
Dividend payable	176,570	–	–	176,570
	511,295	38,431	142,328	692,054

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, and to maintain healthy capital ratios in order to support its business and maximise shareholders' value so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total interest-bearing bank borrowings, trade payables, and other payables and accruals (as shown in the combined statement of financial position) less cash and bank balances. Adjusted capital comprises all components of equity. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios as at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	31,000	102,052	101,000	325,000
Trade payables	4,225	9,081	17,385	20,820
Other payables and accruals	20,187	34,111	50,977	135,703
Less: Cash and bank balances	(58,707)	(57,095)	(128,535)	(300,978)
Net debt	(3,295)	88,149	40,827	180,545
Adjusted capital	163,738	191,447	290,695	170,177
Gearing ratio	(2%)	46%	14%	106%

Fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of the Group's long term borrowings approximate to their fair values based on prevailing borrowing rates available for loans with similar terms and maturities at each of the statement of financial position dates.

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

III. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statements of financial position of the Company as at 31 December 2006, 2007 and 2008 are not presented as the Company was incorporated on 24 February 2009. The Company has not carried out any business other than investment holding since the date of its incorporation.

	At 30 June 2009
	RMB'000
LIABILITIES	
Amounts due to subsidiaries	5,750
Amount due to Hong Kong Shenguan	900
Accruals	6,222
Total liabilities	12,872
Net liabilities	(12,872)
EQUITY	
Issued capital	–
Translation reserve	1
Accumulated losses	(12,873)
Total equity	(12,872)

IV. SUBSEQUENT EVENTS

The companies now comprising the Group underwent and completed a Reorganization on 18 September 2009 in preparation for the listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange. Further details of the Reorganization are set out in the paragraph headed "Corporate Reorganization" in Appendix VII to the Prospectus. As a result of the Reorganization, the Company became the holding company of the Group.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong