SHEN GUAN

Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 00829

Annual Report 2009

Shenguan

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Low Jee Keong

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Ng Yuk Yeung *FCCA CPA CFA*

LEGAL ADVISORS AS TO HONG KONG LAWS

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

REGISTERED OFFICE

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

HONG KONG OFFICE

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

MAINLAND OFFICE

29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
Bank of Communications
China Construction Bank

AUDITORS

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

COMPLIANCE ADVISOR

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
Central
Hong Kong

Information for Investors

LISTING INFORMATION

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

INDEX CONSTITUENT

Hang Seng Composite Index
Hang Seng Composite Industry Index – Consumer Goods
Hand Seng Composite MidCap Index

KEY DATES

13 October 2009
Listed on Hong Kong Stock Exchange

22 March 2010
Announcement of 2009 Final Results

4 May 2010 to 7 May 2010
(both days inclusive)
Closure of Register of Shareholders

7 May 2010
Annual General Meeting

REGISTRAR & TRANSFER OFFICES

Principal:

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch:

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

SHARE INFORMATION

Board lot size: 2,000 shares

Shares outstanding as at 31 December 2009
1,660,000,000 shares

Market Capitalization as at 31 December 2009
HK$11,719,600,000

Basic earnings per share for 2009
Full year RMB25 cents

Dividend per share for 2009
Full year HK4.6 cents

ENQUIRIES CONTACT

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Financial Controller

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WEBSITE

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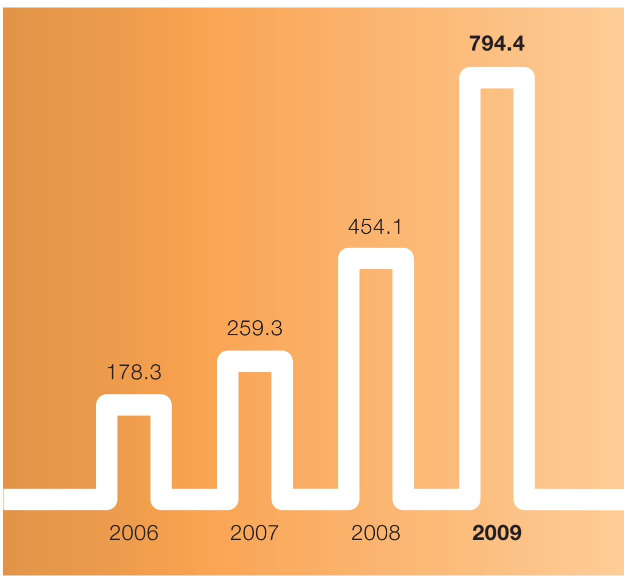
Key Financial Highlights

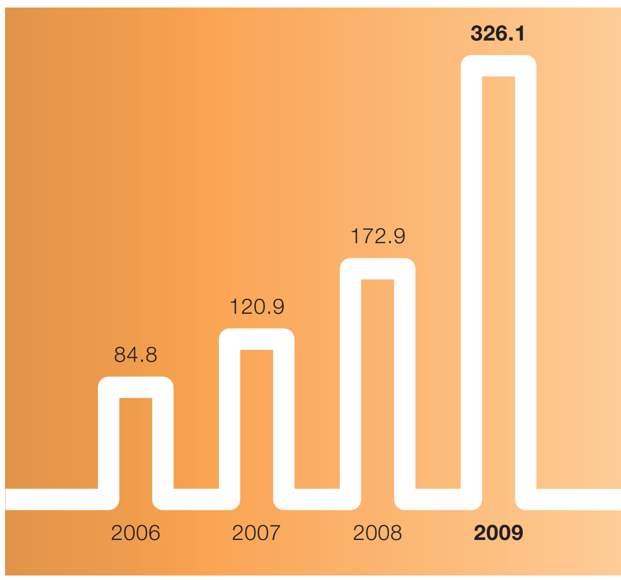
Financial and Operating Highlights for the year ended 31 December

(RMB millions, except where otherwise stated)	2009	2008	% change
Total Production Volume (million meters)	**1,812.2**	1,017.4	+78.1
Total Sales Volume (million meters)	**1,778.9**	1,041.4	+70.8
Revenue	**794.4**	454.1	+75.0
Profit attributable to Owners of the Company	**326.1**	172.9	+88.6
Basic Earnings Per Share (RMB cents)	**25**	N/A	N/A
Dividend Per Share – Final (HK cents)	**4.6**	N/A	N/A
Cash Inflow from Operation	**355.8**	265.8	+33.8
Total Assets	**1,752.8**	465.9	+276.2
Inventory Turnover Day (days)	**43.6**	50.0	-6.4 days
Trade Receivable Turnover Day (days)	**24.2**	21.4	+3.1 days
Trade Payable Turnover Day (days)	**54.4**	58.9	-4.5 days

Revenue
RMB million



Profit attributable to Owners of the Company
RMB million



Chairman's Statement

I, on behalf of the board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited ("Shenguan Holdings" or the "Company"), hereby present the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009 (the "Year" or the "Period").

The Year represents a particularly meaningful year for the history of the Group. On 13 October 2009, Shenguan Holdings successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. Such a move has not only helped the Group to access the international capital platform, but also enabled it to enhance its financial strength and to capture opportunities in the market.

In 2009, the PRC economy remained its growth in a moderate pace. In order to cope with the challenges brought by the global economic instabilities, the PRC government implemented monetary easing and domestic demand stimulating policies during the Period, which helped solidifying and sustaining the momentum of economic growth. The continuous urbanization in the PRC and the rising disposable income of the consumers contribute to the persistent rapid growth on food demand. As a leading manufacturer of edible collagen sausage casings in the PRC, the Group was also benefited from the expanding food industry, and accordingly enabling it to maintain its business growth.

During the Period, the demand for the products of the Group maintained its healthy growth and the Company achieved breakthrough results. The revenue from the sales of the Group's collagen sausage casings soared 75.0% to RMB794.4 million as compared to the corresponding period in 2008. During the same period, the gross profit margins increased from 55.1% to 61.1%. The profit attributable to owners of the Company was RMB321.6 million throughout the Year, representing a growth of 88.6%. The basic earnings per share of the Group was RMB25 cents. The Board is pleased to propose a final dividend of HK4.6 cents.

In 2009, the Group continued to be the largest manufacturer of edible collagen sausage casings in the PRC with a production volume of 1,812.2 million meters of sausage casings and a utilization rate of the production facilities of 86.5%. With the sales of collagen sausage casings remained a major income contributor of the Group, the sales of Western-style collagen sausage casings continued to grow, resulting in a considerable increase in the Group's total turnover. The sales of western-style collagen sausage casings accounted for approximately 91.0% of the total turnover, while the Chinese-style collagen sausage casings represented approximately 9.0% of the total turnover. With the increase in domestic demand for sausages in the PRC, the consumer's demand for sausage casings has grown accordingly. Those medium-to-large scaled sausage manufacturers continued to diversify the range of sausage products by introducing different ingredients and flavors, which further boosted the market demand for high quality collagen sausage casings.

Chairman's Statement

In order to further strengthen the leading position of the Group in the collagen sausage casings industry in the PRC, the Group has allocated resources to expand its production capacity and improve production technology. The number of the Group's production lines which are in operation increased from 56 at the end of 2008 to 116 at the end of 2009. Given the huge demand for edible sausages in the PRC, the Group is well-positioned to stimulate sales and generate profits by increasing its production capacity.

In light of the increasing demand for sausage food, the requirements on both the quality and production technology of sausage casings are becoming more stringent. During the Period, the Group successfully applied for the registration of various patents, which results in the number of registered patents of the Group to increase to nine and as at the date of this report, there were six patent applications pending for approval. In addition, the Group will continue to use advanced technology to produce sausage casings with consistent quality and diversified specifications so as to meet the needs of different domestic and foreign, medium-to-large scaled food manufacturers for the Group's products.

Given the steady growth of the economy of the PRC, the Group is cautiously optimistic to the prospects of the sausage casings market in the PRC. Leveraging on its diversified product range, proven quality and solid business relationships with the leading manufacturers of processed meat product and sausage in the PRC, the Group is well-equiped for achieving outstanding results. In 2010, the demand for the Group's products is expected to remain strong.

According to the "Outline in respect of the Development of the National Live Pig Slaughtering Industry" (《全國生豬屠宰行業發展規劃綱要》) promulgated by the PRC Ministry of Commerce at the end of 2009, to ensure the hygiene and quality standard of meat products, the government will impose strict control measures on the number of designated locations across the nation for slaughtering plants in order to enhance industry consolidation, and in turn strengthening the brand development as well as improving the technology and management standard of the industry. In addition, the further consolidation of the industry will lead to better optimization of the product mix of meat products, re-modelling of the current preferences for fresh meat over frozen meat, high temperature meat products over low temperature meat products, and enhance the low combined utilization rate in the PRC. It is anticipated that the market share of frozen meat will increase from 10% to 20% by 2013 and further increase to approximately 30% by 2015, which shows the immense room for development of the Group's low temperature collagen sausage casings products.

To cater for the Group's development, the Group entered into an investment agreement with The People's Government of Wanxiu District of Wuzhou (梧州市萬秀區人民政府) on 15 April 2009 to construct a new collagen processing plant on a land with site area of approximately 556 mu located at Wanxiu Sifuchong, Chengdong Town, Wanxiu District, Wuzhou (梧州市萬秀區城東鎮思扶沖). The new plant is expected to be put into production by the second half of 2010 so as to cope with the expansion of the Group's business.

In response to the market demand, the Group will continue to expand its production capacity in 2010 and endeavour to improve production techniques. It is expected that the number of production lines of the Group will increase by 50 in 2010, of which 10 production lines had already been assembled and commenced operations, while the remaining 40 are expected to commence operations in mid-2010. Upon completion, the Group's aggregate annualised annual production capacity will increase to 3.78 billion meters from 2.64 billion meters at the end of 2009 and, to accord with the production schedule, the weighted aggregate annual production capacity will be approximately 3.0 billion meters with an anticipated utilization rate of 90%.

The Group will also devote resources for the system renovation of the existing 46 production lines, which involves the transformation of 4 production lines for the manufacturing of higher price, medium-to-large diametrical sausage casings. By optimizing its production facilities and diversifying its product mix, the Group aims to enhance its market competitiveness, meet market demands for medium-to-large diametrical sausage casings and maintain its leading position.

I would like to take this opportunity to express my sincere gratitude to the hard work of all staff who boosted the steady growth of Shenguan Holdings. My gratitude also goes to the shareholders of the Company for their support. In order to reward the shareholders of the Company for their continued support, the Group will continuously seek opportunities for the expansion of its businesses, maintain market leadership and maximize return to its shareholders.

Zhou Yaxian
Chairman and President

Hong Kong, 22 March 2010

Management Discussion and Analysis

BUSINESS AND OPERATIONAL REVIEW

During 2009, the economy of the PRC sustained steady and relatively rapid growth. Despite the existence of uncertainties in the external environment, the economic stimulating policies implemented by the PRC government have gradually generated positive effect, which stabilized the economic development of the PRC. According to the preliminary measurement of the National Bureau of Statistics, the GDP of the PRC in 2009 was RMB33,535.3 billion, representing a growth of approximately 8.7% from 2008. The per capita annual disposable income of the urban and rural residents was RMB17,175 and RMB5,153 respectively, representing effective growths of 9.8% and 8.5%, respectively, which reflected a healthy growth in the income of both urban and rural residents.

The rapid economic development of the PRC, the rising income of the residents and the change of diet habits were the contributors to the demand for non-staple food. As the largest manufacturer of edible collagen sausage casings in the PRC, the Group recorded strong growth for the Period. For the year ended 31 December 2009, the revenue of the Group was RMB794.4 million, up 75.0% over 2008, which mainly demonstrated the increase in sales of the Group in line with the expansion in its production capacity.

Benefited from its increased number of production lines, the Group was able to sub-group the production lines according to its key products so that the need to re-configure its machinery for the production of different products was reduced, thus enhancing the overall efficiency. Together with effective improvement on the energy saving technology, the Group's gross profit margin has increased six percentage points from 55.1% in 2008 to 61.1% in 2009. As at 31 December 2009, profit attributable to owners of the Company was RMB326.1 million, representing a growth of 88.6% from RMB172.9 million in 2008. The profits of the Group for the Period attributable to owners of the Company upsurged 16.9% from the profit forecasts set out in the prospectus of the Company dated 30 September 2009.

The Board proposed a final dividend for the Period of HK4.6 cents per share.

PRODUCT MIX

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings. In light of the increasing demand for sausages in the PRC, in particular the rapid development of low temperature sausages, the demand for sausage casings increased accordingly. Those medium to large scaled sausage manufacturers continued to diversify the range of new sausages by introducing different ingredients and flavors, which also boosted the market demand for high quality collagen sausage casings.

During the Period, Western-style collagen sausage casing products remained a major source of income of the Group, the sales of which reached RMB722.9 million for the year ended 31 December 2009, representing a growth of 82.8% over 2008 and accounted for 91.0% of the revenue of the Group. The sales of Chinese-style collagen sausage casings were approximately RMB71.5 million, up 22.2% over 2008, and represented approximately 9.0% of the revenue.

Mainland China is the major market of the Group's products with over 95% of the sausage casings manufactured by the Group are sold to the sausage manufacturers in the PRC, while the remaining products are mainly exported to South America, Malaysia and the United States.

PRODUCT PRICE

During the Period, the average selling price maintained at a stable level. The average selling price of the Group's products was RMB0.45 per meter in 2009, as compared to RMB0.44 per meter in 2008.

SUPPLY OF RAW MATERIALS

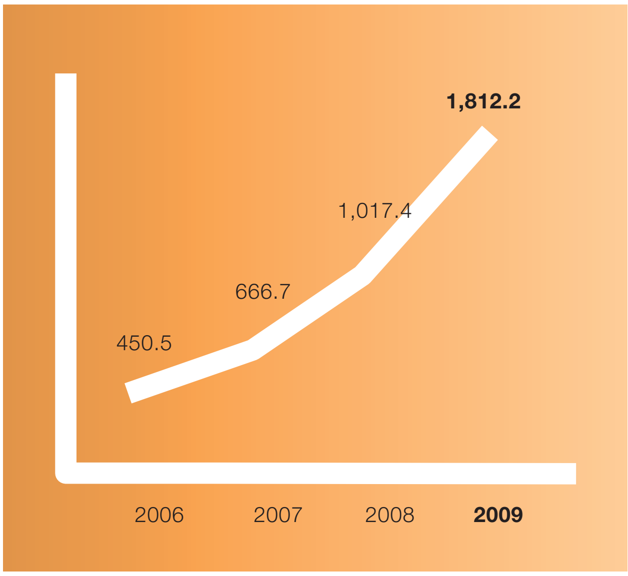
The major raw material for the production of edible collagen sausage casings is cattle's inner skins, which must undergo a hygienic inspection by the local authorities to guarantee a non-infected condition of those inner skins before passing on for processing, and a quarantine certificate issued by relevant authorities must be shown upon delivery. In addition, the Group will also conduct quality check for raw materials. During the Period, the cost of raw materials was RMB128.6 million, accounting for 41.7% of the total cost of sales. To ensure stable supply, the Group has established good relationships with suppliers ever since the commencement of the Group's operation.

PRODUCTION SCALE

The number of production lines in the two production plants at Wuzhou increased from 56 at the end of 2008 to 116 at the end of 2009. The annual total production capacity enhanced to 2.64 billion meters, and the weighted average capacity calculated by the operating time of the production lines was 2.09 billion meters. The actual production volume for the Year increased to 1.81 billion meters, with a utilization rate of production facilities of 86.5%. The expansion of production scale enables bulk production of Western-style collagen sausage casings, and therefore allowing the Group to satisfy the tremendous market demand.

Apart from increasing the number of production lines, the Group improved the production mode, under which the production lines were reorganized into multiple small groups with each group of machinery dedicated to the production of designated products. As such, the production flow was optimized, and the machinery re-configuration for switching between production of different products was reduced, thus considerably boosting the production efficiency.

Annual Production Volume
Million meters



TECHNOLOGICAL RESEARCH AND DEVELOPMENT

In order to further strengthen the leading position of the Group in the rapidly growing collagen sausage casing market of the PRC and to seize the opportunities arising from the huge market needs, the Group will endeavour to develop research and development capabilities. Continuous optimization and improvement on the manufacturing technologies and processes of collagen sausage casings were underway so as to produce more kinds of collagen sausage casings for different sausage products and to cater for the market demands.

During the Year, the Group successfully developed a new drying technology to replace the old one, which enables the production of sufficient heat energy for the drying of the sausage casings using electricity that comes at a lower cost but with reduced coal consumption (per meter of casings production) by approximately 60%. This technology does not simply lower the production costs directly, but also contributes to the environmental protection.

The Group is the first sausage casing manufacturer to obtain patent regarding the production of edible collagen sausage casings in the PRC. As at 31 December 2009, the Group had registered two trademarks and nine patents with the State Intellectual Property Office, with six patents to be registered in the PRC pending for approval.

The Group's research and development expenses for the Year were RMB23.4 million (2008: RMB23.1 million). In addition, the Group had incurred capital expenditure of RMB4.0 million for the research and development facilities.

QUALITY CONTROL

Product quality and reliability are vital to the Group's success. During the Year, the Group was continued to be accredited with ISO9001: 2000 Quality Management System and HACCP Standards for its quality control, and had obtained FDA registration for the export of products to the United States. In addition, all of the Group's products had complied with the national standards (GB14967-94) and sausage casing manufacturing industry standards (SB/T10373-2004). All these recognitions enable the Group to become a trustworthy product supplier to the customers.

CUSTOMER RELATIONSHIP

Leveraging on its diversified product range and proven product quality, the Group has established a long-term relationship with the leading manufacturers of processed meat product and sausage in the PRC over the years. During the Year, the Group secured remarkable volume of orders from customers, thus achieving considerable increase in revenue.

During the Year, the Group continued to provide ranges of high quality sausage casing products to a number of renowned food product suppliers in the PRC, namely Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Yurun Group Co., Ltd. (南京雨潤食品有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠) and Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司), and maintained close partnerships with them.

MARKETING

The Group believes that strong brand recognition and reputation are instrumental to its success. With certain trademarks registered in foreign countries such as Thailand, Vietnam and the U.S., together with its promotion campaigns like exhibitions, the Group has been able to enhance consumer recognition and acceptance of its brand and products.

AWARDS

Save for its patented technologies for the manufacture of sausage casings, the Group had also been awarded several awards and certificates in recognition of its business development during the Year, which included the "Certificate of High-tech Enterprise" (高新技術企業證書) awarded by the Department of Science and Technology of Guangxi Zhuang Autonomous Region (廣西壯族自治區科學技術廳), Local Tax Bureau of Guangxi Zhuang Autonomous Region (廣西壯族自治區地方稅務局), the State Administration of Taxation of Guangxi Zhuang Autonomous Region (廣西壯族自治區國家稅務局) and the Department of Finance of Guangxi Zhuang Autonomous Region (廣西壯族自治區財政廳), as well as the "Most Valuable Brands in the Meat Industry of China" (中國肉類產業最具價值品牌) awarded by China Meat Association (中國肉類協會).

Having been selected as one of the "China's Up and Comers" by Forbes China in 2008, the Group made a great leap forward this year by being ranked 7th place from 65th in 2008. This demonstrated the Group's leading position in the market and its business development strategies are unanimously recognized by both the local and international financial community.

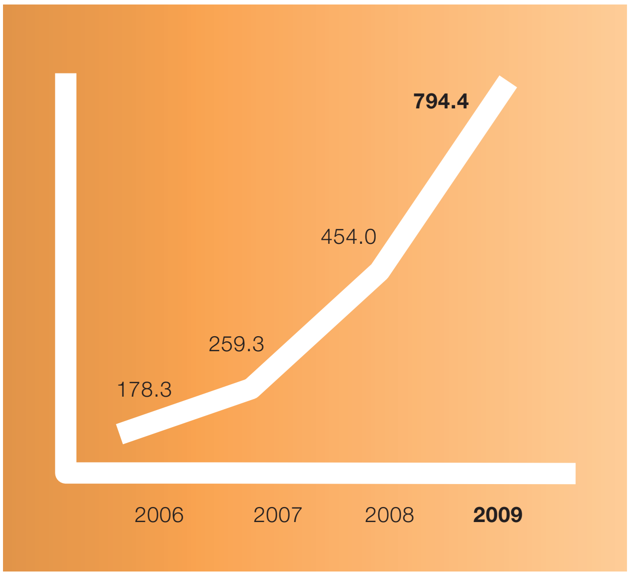
FINANCIAL ANALYSIS

Revenue

The Group's revenue increased by 75.0% from RMB454.1 million in 2008 to RMB794.4 million in 2009, driven by the significant growth in the sales of Western-style collagen sausage casings.

Sales of Western-style collagen sausage casings increased by 82.8% from RMB395.5 million in 2008 to RMB722.9 million in 2009. The increase in sales of these products was principally a result of (i) an expansion of the Group's sales and marketing network in the PRC; and (ii) an increase in overall market demand for these products in the PRC as a result of rapid urbanization and continuous economic development.

Revenue
RMB million



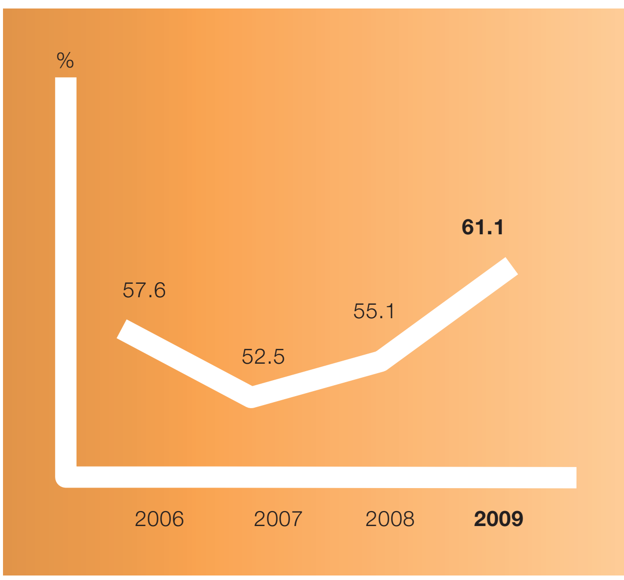
Cost of sales

Cost of sales increased by 51.3% from RMB204.0 million in 2008 to RMB308.6 million in 2009. The increase was generally consistent with the increase in sales over the same period and was driven by the following factors: (i) the cost of raw materials increased by RMB50.0 million; (ii) water, electricity and coal expenses increased by RMB23.6 million, as a result of the increased production volume; and (iii) the direct labor expenses increased by RMB32.7 million, as the Group hired more workers to support its operations.

Gross profit

Gross profit increased by 94.2% from RMB250.1 million in 2008 to RMB485.8 million in 2009, while the gross profit margin increased from 55.1% in 2008 to 61.1% in 2009. The increase in gross profit margin was mainly driven by the efficient use of raw materials and energy in 2009. As a result of the increase in the number of production lines, the Group divided the production lines into groups, and each production group specifically produced certain products with similar styles and diameters, so that the Group was able to reduce its machinery re-configuration for switching between productions of different products. Together with the improved production technologies, the Group achieved cost savings in raw material used and water, electricity and coal expenses in 2009.

GP margin



Other income and gains

Other income and gains decreased by 8.6% from RMB3.9 million in 2008 to RMB3.5 million in 2009.

Selling and distribution costs

Selling and distribution expenses increased by 56.5% from RMB7.2 million in 2008 to RMB11.2 million in 2009. This was mainly due to an increase in transportation expense in the amount of RMB1.4 million and an increase in staff salary of RMB2.9 million. Selling and distribution expenses accounted for 1.6% of the revenue in 2008 and 1.4% of the revenue in 2009. The decrease in selling and distribution expenses as a percentage of sales reflected the increase in economies of scale.

Administrative expenses

Administrative expenses increased by 244.4% from RMB23.1 million in 2008 to RMB79.6 million in 2009. The increase was mainly caused by the increase in staff salary and benefits which was principally a result of (i) an increase in headcount of administrative staff; (ii) the payments of performance-based bonuses to some management personnel based on the Group's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") and its subsidiaries' profitability; and (iii) the Company had incurred legal and professional fees of RMB23.2 million to prepare for its listing in October 2009.

Other expenses

Other expenses were RMB1.2 million and nil in 2008 and 2009, respectively.

Finance costs

Finance costs increased by 29.6% from RMB8.8 million in 2008 to RMB11.4 million in 2009. This increase was due to an increase in average bank borrowings in 2009 in order to finance the increase in number of production lines, but the effect was partially offset by an increase in government grants to subsidize interest expenses.

Income tax expenses

Income tax expenses were RMB36.0 million in 2009, as compared to RMB16.8 million in 2008. The Company's major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its location in Western China and was also entitled to a 50% reduction on the Enterprise Income Tax for both 2008 and 2009, so the applicable tax rate for Wuzhou Shenguan was 7.5% for these two years.

The Group's effective tax rates were charged at 7.9% and 9.3% to the profit before tax in 2008 and 2009, respectively. The increase in effective tax rates was due to the withholding tax levied on dividends declared from a subsidiary established in the PRC to its holding companies established in Hong Kong.

Profit attributable to minority interests

Profit attributable to minority interests, increased by 4.5% from RMB24.0 million in 2008 to RMB25.0 million in 2009. The increase was due to an increase in profit after tax but a decrease in percentage of beneficial interests of minority shareholders in Wuzhou Shenguan.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 88.6% from RMB172.9 million in 2008 to RMB326.1 million in 2009. The Group's net profit margin attributable to owners of the Company increased from 38.1% in 2008 to 41.0% in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank borrowings

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

As at 31 December 2009, the cash and cash equivalents amounted to RMB1,027.9 million, representing an increase of RMB899.3 million from 2008. 52.0% of the cash and cash equivalents was denominated in Renminbi and the other 48.0% was denominated in Hong Kong dollars.

As at 31 December 2009, the total liabilities of RMB236.8 million (31 December 2008: RMB175.2 million), of which RMB74.9 million was long-term bank borrowings to be due in more than one year. As at 31 December 2009, the Group had no short-term bank borrowings to be due within one year. All of the Group's bank borrowings were subject to floating interest rates currently ranging from 5.18% per annum to 5.76% per annum and were denominated in RMB.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB953.0 million as at 31 December 2009. The debt-to-equity ratio was improved from 34.7% for 2008 to 4.9% for 2009, mainly caused by the strong cash inflow from operations and inflow of proceeds from the initial public offering of the Company in October 2009. Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flow

In 2009, RMB355.8 million and RMB834.1 million were generated from the operating activities and financing activities, respectively, while RMB374.1 million was spent on investing activities. Net cash inflow from financing activities was mainly related to the inflow of proceeds from the initial public offering of the Company in October 2009. Net cash outflows from investing activities were mainly related to the expansion of production facilities and the purchase of land use rights and property, plant and equipment, as well as an increase in non-pledged time deposits with original maturity of more than three months when acquired. Non-pledged time deposits with original maturity of more than three months when acquired amounted to RMB83.5 million at the end of the year.

Exchange risk exposure

The Group mainly operates in the PRC with most transactions settled in RMB. The assets and liabilities, and transactions arising from the operations were mainly denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the Period.

Capital expenditure

Capital expenditure for 2009 amounted to RMB291.4 million and capital commitments as at 31 December 2009 amounted to RMB442.9 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production lines.

For the year 2010, the Company has budgeted to spend RMB400 million to RMB500 million for capital expenditure, including mainly the capital expenditure to increase the Group's production capacity to cope with the increasing demand of its products.

Pledge of assets

As at 31 December 2008, the Group's bank borrowings were secured by the prepaid land, buildings and plant and machinery situated in the PRC, which had an aggregate carrying value of RMB70.3 million. As at 31 December 2009, none of the Group's assets was pledged.

Use of proceeds

On 13 October 2009, the Company was successfully listed on the Main Board of the Stock Exchange. On 14 October 2009, the sole global coordinator on behalf of the international underwriters fully exercised the over-allotment option of 60,000,000 shares. Total net proceeds received by the Company from the initial public offering ("IPO") were approximately RMB1,190.6 million.

As at 31 December 2009, approximately RMB14.1 million of the proceeds were used for the repayment of the outstanding amount due to shareholders, approximately RMB133.3 million of the proceeds were used for the repayment of bank borrowings, and approximately RMB64.7 million of the proceeds were used for the development and expansion of the production facilities in Wuzhou. The proceeds were applied in accordance with the proposed applications set forth in the prospectus of the Company dated 30 September 2009.

The unutilized proceeds have been placed with licensed banks in Hong Kong and the PRC as interest bearing deposits.

Contingent liabilities

As at 31 December 2009 and up to the date of this report, the Group was not aware of any material contingent liabilities.

Acquisitions, disposals and significant investment

During the Period, save as disclosed below and apart from the reorganization in relation to the listing of the shares of the Company, there was no material acquisition, disposal or investment by the Group.

On 17 December 2009, Wuzhou Shenguan, a non-wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Guangxi Wuzhou Sanjian Medicine Co. Ltd (廣西梧州三箭製藥有限公司) ("Wuzhou Sanjian"), a connected person of the Company, pursuant to which Wuzhou Shenguan agreed to acquire from Wuzhou Sanjian the land use rights in respect of a parcel of land located at No. 32, Fu Dian Shang Chung, Xi Jiang 4th Road, Wuzhou, the PRC (梧州市西江四路扶典上沖32號) and certain buildings and ancillary structures erected thereon for a consideration of RMB3,003,600.

As at the date of this report, the transfers of titles of the assets mentioned above were still in progress. For further details of the transaction, please refer to the announcement of the Company dated 17 December 2009.

Human resources

As at 31 December 2009, the Group had 2,469 employees. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, it offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

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

PROSPECTS

Looking ahead, the Group is optimistic to the prospects and potential of the sausage casings market in the PRC. With the increasing income of urban and rural households in the PRC, the domestic demand for sausage products is anticipated to grow in the future. The Group is well positioned to capitalize on the growing trend. To cater for the increasing demand, the Group has formulated a key development plan for seizing of the enormous opportunities presented by the market growth.

In 2010, the Group will add 50 production lines, of which 10 production lines had already been assembled and commenced operations, while the remaining 40 are expected to commence operations in the middle of 2010. The Group will also devote resources to the system renovation of the existing 46 production lines, which involves transformation of 4 production lines specially for manufacturing of large to middle-diametrical sausage casings. By optimizing its production facilities and diversifying its product mix, the Group intends to enhance its market competitiveness, fulfil the market demand for large-diametrical sausage casings and maintain the recognition of its brand name "Shenguan" (神冠) as the leading brand in the sausage casing industry in the PRC.

Meanwhile, the Group will deploy significant resources for continued manufacturing technologies advancement and new products developing as well as product features improvement such as the texture and flavour. By keeping abreast of the market trend, the Group will introduce new products that suit different customer needs in order to pursue higher cost efficiency and expand business scale.

During the Year, the Group entered into an investment agreement with The People's Government of Wanxiu District of Wuzhou (梧州市萬秀區人民政府) to construct a new collagen processing plant on a land with site area of approximately 556 mu located at Wanxiu Sifuchong, Chengdong Town, Wanxiu District, Wuzhou (梧州市萬秀區城東鎮思扶沖). The new plant is expected to be put into production by the second half of 2010 so as to cope with the need of business expansion.

To pursue excellence, the Group will continue to allocate resources to consolidate and optimize the internal management efficiency and improve the resources management system. By further enhancing the management and operational efficiency, the Group will be able to attain economies of scale and achieve better performance, thereby enabling it to bring fruitful return as a token of thanks to the support of the shareholders, staff and customers.

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Since its listing on the Stock Exchange, the Company has complied with the code provisions of the Code for the Period, save for the following:

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. As the Company was listed only since 13 October 2009, during the Period, the Board held two meetings since its listing. One meeting of the audit committee of the Company (the “Audit Committee”) was convened and held during the Period. No meeting of the nomination committee of the Company (the “Nomination Committee”) and the remuneration committee of the Company (the “Remuneration Committee”) was convened during the Period.

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

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

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility of appointing the chief executive officer.

BOARD OF DIRECTORS

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

Executive Directors:

Ms. Zhou *(Chairman)*
Ms. Cai Yueqing
Mr. Shi Guicheng
Mr. Ru Xiquan

Non-Executive Director:

Mr. Low Jee Keong

Independent Non-Executive Directors:

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

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

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

BOARD MEETINGS AND ATTENDANCE

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. As the Company was listed on 13 October 2009, during the year ended 31 December 2009, the Board held two meetings attended by all the members of the Board since the listing of the Company. One meeting of the Audit Committee was convened and held since the listing of the Company and up to 31 December 2009. No meeting of the Nomination Committee and the Remuneration Committee was convened and held since the listing of the Company and up to 31 December 2009. The attendance of the Directors at the Board meetings is as follows:

	Attendance/Meeting held
Ms. Zhou *(Chairman)*	2/2
Ms. Cai Yueqing	2/2
Mr. Shi Guicheng	2/2
Mr. Ru Xiquan	2/2
Mr. Low Jee Keong	2/2
Mr. Tsui Yung Kwok	2/2
Mr. Meng Qinguo	2/2
Mr. Yang Xiaohu	2/2

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility of appointing the chief executive officer.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors and the non-executive Director has entered into a service contract with the Company for an initial term of three years commencing from 13 October 2009 and may be terminated by either party by giving not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 13 October 2009 and may be terminated by either party by giving at least three months' written notice.

In accordance with Article 84 of the Articles of Association of the Company, at each annual general meeting, at least one-third of the Director are required to retire from office by rotation. Each Director shall retire from office at least once every three years and shall include those who have been longest in office since their last election or re-election.

In accordance with Article 83 of the Articles of Association of the Company, new Directors appointed by the Board during the Year shall retire and submit themselves for re-election at the annual general meeting immediately following their appointments. According, all the Directors will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code since listing of the shares of the Company from 13 October 2009 to 31 December 2009. Moreover, no incident of non-compliance of the Model Code by the senior management of the Group was noted by the Company.

RESPONSIBILITIES OF DIRECTORS

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

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

There is no change in the composition of the Board since the Company's listing in October 2009.

SUPPLY OF AND ACCESS TO INFORMATION

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

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

AUDIT COMMITTEE

The Company established the Audit Committee on 19 September 2009 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Tsui Yung Kwok who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee. The Audit Committee shall meet at least twice a year.

The written terms of reference of the Audit Committee adopted by the Board are in line with the code provisions of the Code and are available upon request and on the Group's website.

The Audit Committee had reviewed the Group's internal controls for the financial year ended 31 December 2009. The Group's final results for the year ended 31 December 2009 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and complies with all relevant rules and regulations, including but not limited to the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held one meeting since the Company's listing from 13 October 2009 up to 31 December 2009. The attendance of the members of the Audit Committee at the Audit Committee meeting is as follows:

	Attendance/Meeting held
Mr. Tsui Yung Kwok *(Chairman)*	1/1
Mr. Meng Qinguo	1/1
Mr. Yang Xiaohu	1/1

AUDITORS' REMUNERATION

Save as disclosed in note 6 to the financial statements for fees payable to the Company's external auditors for audit services provided for the year ended 31 December 2009, other fee payable for significant non-audit services assignments for the year are set out as follows:

Type of services	**Fee paid/payable** *RMB'000*
Professional services rendered in connection with the listing of the Company	6,164
Non-audit services	420
	6,584

NOMINATION COMMITTEE

The Company established the Nomination Committee pursuant to a resolution of the Directors passed on 19 September 2009. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of the Board's succession, and to ensure that the candidates to be nominated as Directors are experienced, high caliber individuals. The Nomination Committee consists of Ms. Zhou, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Ms. Zhou is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors and other related matters.

The Nomination Committee had not held any meeting since the Company's listing from 13 October 2009 up to 31 December 2009. Subsequent to the Period and up to the date of this annual report, one meeting was held by the Nomination Committee to review the structure, size and composition of the Board, and to assess the independence of independent non-executive Directors. The attendance of the members of the Nomination Committee at the Nomination Committee meeting is as follows:

	Attendance/Meeting held subsequent to the Period and up to the date of this annual report
Ms. Zhou *(Chairman)*	1/1
Mr. Meng Qinguo	1/1
Mr. Yang Xiaohu	1/1

REMUNERATION COMMITTEE

The Company established the Remuneration Committee pursuant to a resolution of the Directors passed on 19 September 2009 in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and other senior management of the Company. The Remuneration Committee comprises Ms. Zhou, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Meng Qinguo is the chairman of the Remuneration Committee.

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

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the code provisions of the Code and are available upon request and on the Group's website.

The Remuneration Committee had not held any meeting since the Company's listing from 13 October 2009 up to 31 December 2009. Subsequent to the Period and up to the date of this annual report, one meeting was held by the Remuneration Committee to review the remuneration policies of the Company, the remuneration packages of the Directors for the year 2009, and the proposals on remuneration packages of the Directors for the year 2010. The attendance of the members of the Remuneration Committee at the Remuneration Committee meeting is as follows:

	Attendance/Meeting held subsequent to the Period and up to the date of this annual report
Mr. Meng Qinguo *(Chairman)*	1/1
Ms. Zhou	1/1
Mr. Yang Xiaohu	1/1

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the year ended 31 December 2009. The auditors to the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2009. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

INTERNAL CONTROL

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

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

COMMUNICATION WITH SHAREHOLDERS

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

The chairman of the Board and chairman of the Audit Committee will make themselves available at the annual general meeting to meet with the shareholders. The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings.

The forthcoming annual general meeting of the Company will be held on 7 May 2010.

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

Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. Zhou Yaxian
Chairman and President

Aged 50, Ms. Zhou is a founder of the Group and a director of all of the subsidiaries of the Company except Guangxi Wuzhou Xingke Electronic Company Limited (廣西梧州星科電子有限公司). She is primarily responsible for the Group's overall strategic planning, technology and business management. Ms. Zhou has nearly 30 years of experience in the collagen sausage casing industry. Before founding the Group, she had been involved in the trial production of collagen sausage casings in the Meat Products Factory of Wuzhou Food Products Corporation (梧州市食品總公司肉類制品廠) from 1979 to 1989 and was employed by Wuzhou Protein Casing Factory (梧州市蛋白腸衣廠) ("Wuzhou Protein Factory") in 1989, mainly responsible for technology development. She was appointed the head of Wuzhou Protein Factory and the Deputy General Manager of Guangxi Wuzhou Zhongheng Group Co., Ltd. (廣西梧州中恒集團股份有限公司) in 1992 and 1997, respectively. Since 2004, Ms. Zhou has been the Chairman of the board of directors and the General Manager of Wuzhou Shenguan.

Ms. Zhou completed the course of Economic Management held by The Central Party School (中共中央黨校) in December 2001. She was a member of the 10th National People's Congress from February 2003 to February 2008 and is a senior engineer in biotechnology. She is one of the inventors of four national patents in respect of production method and facilities for collagen sausage casings and has received special allowances granted by the State Council since 2008. Ms. Zhou was awarded the "The Third Class Prize in National Science and Technology Advancement Award" (國家科學技術進步三等獎) by the National Science and Technology Committee of the PRC (中華人民共和國國家科學技術委員會) in 1995, the "Guangxi Outstanding Expert" (廣西優秀專家) by the Wuzhou Government in 2006, the "Influential Person in China Meat Industry" (中國肉類行業影響力人物) by the China Meat Association (中國肉類協會) in 2007, the "2007 Guangxi Outstanding Entrepreneur" (2007年度廣西優秀企業家) jointly by the Guangxi Enterprises Union (廣西企業聯合會) and the Guangxi Entrepreneurs Association (廣西企業家協會) in 2008, the "China Outstanding Female Entrepreneur" (中國傑出創業女性) by the China Female Entrepreneurs Association (中國女企業家協會) in 2008 and the "Binshan Cup Technological Innovative Figure in China Meat Industry" (冰山杯一中國肉類產業科技創新人物) in 2009. She was appointed as a Director on 24 February 2009 and redesignated as an executive Director, and appointed as the Chairman of the Board on 19 September 2009.

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

Ms. Cai Yueqing
Vice President

Aged 54, Ms. Cai is primarily responsible for the Group's production management. She has nearly 17 years of experience in the collagen sausage casing industry. Ms. Cai graduated at Wuzhou Branch of Guangxi University (廣西大學梧州分校) and attained the Professional Qualification Certificate in Quality Management in January 1998. Ms. Cai joined Wuzhou Protein Factory as the Supervisor of the Quality Control Office in 1992. She was appointed as the Deputy Head of Wuzhou Protein Factory in 1994 and has been the Deputy General Manager of Wuzhou Shenguan since 2004, responsible for production management and quality control. She was appointed as a Director on 19 September 2009.

Mr. Shi Guicheng
Vice President

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

Mr. Ru Xiquan
Vice President

Aged 47, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 19 years of experience in the collagen sausage casing industry. Mr. Ru graduated from Guangxi Central Radio and TV University (廣西廣播電視大學) and attained the Professional Qualification Graduation Certificate in Finance and Accounting and Finance in July 1989. He also completed the course of Economic Management held by The Central Party School (中共中央黨校) in 2002. Mr. Ru is an accountant and joined Wuzhou Protein Factory as the Head of the Finance and Accounting Department in 1990. He has been the Chief Accountant of Wuzhou Shenguan since 2004, responsible for matters relating to accounting and finance. He was appointed as a Director on 19 September 2009.

NON-EXECUTIVE DIRECTOR

Mr. Low Jee Keong

Aged 44, Mr. Low's Chinese name 劉子強 is an unofficial name. He is primarily responsible for the Group's export business. Mr. Low has nearly 17 years of experience in the collagen sausage casing industry. Before founding the Group, Mr. Low, through Exceltech Enterprise ("Exceltech"), started his business relationship with Wuzhou Protein Factory for the resale of edible collagen sausage casing products in Malaysia in 1993, and has maintained the relationship with Wuzhou Shenguan after the acquisition of the entire ownership rights of Wuzhou Protein Factory by Wuzhou Shenguan in November 2004. Mr. Low is a founder of the Group and has been a director of Wuzhou Shenguan since 2004. Mr. Low has not been involved in the Group's day-to-day operations as he resides in Malaysia. However, he has participated, and will continue to participate, in the strategic planning and decision-making processes in the business operations. He is also a director of Full Win Consultants Limited and Excel Gather Limited, both are subsidiaries of the Company. He was appointed as a Director on 19 September 2009. Mr. Low is a director of Rich Top Future which has an interest in the share of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsui Yung Kwok

Aged 41, Mr. Tsui was awarded a bachelor degree in Business (Accounting) by Curtin University of Technology, Australia in August 1992 and a master degree in Corporate Governance by The Hong Kong Polytechnic University in December 2007. Mr. Tsui has nearly 15 years of experience in accounting and finance. He held a senior position in an international accounting firm in Hong Kong from 1994 to 2003 and was the Chief Financial Officer of Qin Jia Yuan Media Services Company Limited (Hong Kong Stock Code: 02366), the shares of which are listed on the Stock Exchange, from 2003-2004. Mr. Tsui has been the Chief Financial Officer and the Company Secretary of Ju Teng International Holdings Limited (Hong Kong Stock Code: 03336), the shares of which are listed on the Stock Exchange since 2004. Mr. Tsui became an Executive Director of Ju Teng International Holdings Limited in June 2005. Mr. Tsui is a member of the Institute of Chartered Accountants in Australia, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries. He was appointed as a Director on 19 September 2009.

Mr. Meng Qinguo

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

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

Mr. Yang Xiaohu

Aged 35, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 11 years of experience in the financial industry. He joined Everbright Securities Company Limited (光大證券有限公司), focusing on investment banking in 1998 and is currently the General Manager of the Investment Banking Division of the Shenzhen Second Branch of Everbright Securities Company Limited (光大證券有限公司). He was appointed as a Director on 19 September 2009.

SENIOR MANAGEMENT

Mr. Mo Yunxi
Vice President

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

Mr. Ng Yuk Yeung
Financial Controller

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

Report of the Directors

The Directors present their first report and the audited financial statements of the Company for the period from 24 February 2009 (date of incorporation) to 31 December 2009 and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 101.

The Board recommended the payment of a final dividend of HK4.6 cents per ordinary share in respect of the Year to shareholders on the register of members of the Company on 7 May 2010. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 18 May 2010. The recommendation of the final dividend has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4 May 2010 to Friday, 7 May 2010 (both days inclusive), during such period no transfer of shares will be registered. To ensure the entitlement to the final dividend, which will be resolved and voted at the forthcoming annual general meeting of the Company, and eligible for attending and voting at the forthcoming annual general meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on Monday, 3 May 2010.

REORGANIZATION AND USE OF PROCEEDS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 24 February 2009. Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 18 September 2009. The shares of the Company have been listed on the main board of the Stock Exchange since 13 October 2009 (the "Listing Date").

As part of the preparation for listing of the shares of the Company, the Company implemented a capitalisation issue of 1,199,000,000 shares and an issue of 400,000,000 new shares during its IPO in 2009. All such shares issued were ordinary shares and the 400,000,000 new shares were issued at HK$3.10 per share. In October 2009, the underwriters of the Company's IPO fully exercised the over-allotment option and the Company issued an additional 60,000,000 new shares at HK$3.10 per share. The gross proceeds of the IPO and the full exercise of the over-allotment option received by the Company were approximately HK$1,240 million and HK$186 million, respectively. These proceeds were partially applied during the year ended 31 December 2009 in accordance with the proposed applications set out in the Company's prospectus dated 30 September 2009 as follows:

– approximately RMB64.7 million was used for the development and expansion of the production facilities in Wuzhou;

– approximately RMB133.3 million was used for repayment of bank loans; and

– approximately RMB14.1 million was used for repayment of the outstanding amounts due to Hong Kong Shenguan, C.T. Company and Exceltech.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the audited financial statements and the prospectus of the Company dated 30 September 2009, is set out on page 102. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and the investment property of the Group during the Year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the Year are set out in notes 26 and 27 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in the prospectus of the Company dated 30 September 2009 and the exercise of the over-allotment option of 60,000,000 shares on 14 October 2009, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

On 14 October 2009, the sole global coordinator on behalf of the international underwriters of the global offering of the Company (the "Global Offering") fully exercised the over-allotment option of 60,000,000 shares at an offer price of HK$3.1 per share, being the offer price in connection with the Global Offering. The shares issued and allotted under the over-allotment option were used by the sole global coordinator to facilitate the return in full to Rich Top Future of 60,000,000 borrowed shares, which were used solely to cover over-allocations in the international offering under the Global Offering, pursuant to a stock borrowing agreement entered into between the sole global coordinator and Rich Top Future dated 7 October 2009. The net proceeds from the over-allotment are approximately HK$177.6 million which have been applied as stated in the section headed "Reorganization and use of proceeds".

RESERVES

For the year ended 31 December 2009, the profit attributable to owners of the Company amounted to RMB326,061,000. The Company's reserves available for distribution comprise share premium and retained profits. Under the Companies Law of the Cayman Islands, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2009, the Company had distributable reserves amounting to RMB1,263,879,000, of which RMB67,295,000 has been proposed as a final dividend for the Year, calculated in accordance with statutory provisions applicable in Cayman Islands.

Details of movements in the reserves of the Company and the Group during the Year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions totalling RMB1,113,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 50.0% of the total sales for the Year and sales to the largest customer amounted to 38.4%. Purchases from the Group's five largest suppliers accounted for 34.7% of the total purchases and purchases from the largest supplier amounted to 11.6%.

Save for Wuzhou Junye Trademark Printing Material Co., Ltd. (梧州駿業商標印刷有限公司), ("Wuzhou Junye Printing Material"), which was one of our top five largest suppliers and is owned as to 90% by Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou and Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or the Group's five largest suppliers.

EMOLUMENT POLICY

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

DIRECTORS

The Directors during the Year were:

Executive Directors:

Ms. Zhou
Ms. Cai Yueqing
Mr. Shi Guicheng
Mr. Ru Xiquan

Non-executive Director:

Mr. Low Jee Keong

Independent non-executive Directors:

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

In accordance with Article 83 of the Company's Article as Association, all the Directors will retire by rotation and, being eligible, will offer themselves for election at the forthcoming annual general meeting. The non-executive Director and independent non-executive Directors are appointed for periods of three years and two years, respectively.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 22 to 25 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and the non-executive Director has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and each of the independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of two years commencing from Listing Date, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to its articles of association, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements and in the section headed "Connected transactions and continuing connected transactions" in this report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group subsisted at the end of the Year or at any time during the Year to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

MANAGEMENT CONTRACTS

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

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2009, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

1. INTERESTS AND SHORT POSITION IN THE SHARES (THE "SHARES") OF THE COMPANY

Name of Directors	Capacity/Nature	No. of Shares	Approximate percentage of issued share capital of the Company
Ms. Zhou	Interest of controlled corporation *(Note 2)*	1,134,552,000 (L)	68.35
Mr. Low Jee Keong ("Mr. Low")	Interest of controlled corporation *(Note 5)*	39,468,000 (L)	2.38

2. INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES

Name of Directors	Capacity/Nature	No. of underlying Shares	Approximate percentage of issued share capital of the Company
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	1,000,000 (L)	0.06
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	1,000,000 (L)	0.06
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	1,000,000 (L)	0.06

3. LONG POSITION IN THE ORDINARY SHARES OF ASSOCIATED CORPORATIONS

Name of Directors	Name of the associated corporation	Capacity/Nature	No. of shares held/ amount contributed to registered capital	Approximate percentage of interest in associated corporation
Ms. Zhou	Rich Top Future	Interest of controlled corporation *(Note 2)*	65,454	65.45
	Wuzhou Shenguan	Interest of controlled corporation *(Note 4)*	RMB2,529,000	3.00
Mr. Low	Rich Top Future	Interest of controlled corporation *(Note 5)*	20,835	20.84

Notes:

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

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

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

4. Ms. Zhou holds approximately 35.60% interest in Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited (梧州市先盛膠原蛋白技術諮詢服務有限公司), which has contributed RMB2,529,000 to the total registered capital of Wuzhou Shenguan, representing approximately 3% of the total registered capital.

5. Mr. Low holds 100% interest in Wealthy Safe Management Limited ("Wealthy Safe"), which holds 39,468,000 Shares. Therefore, Mr. Low is deemed or taken to be, interested in all the Shares held by Wealthy Safe for the purpose of the SFO. Mr. Low holds 100% interest in Brighten Lane Limited, which holds approximately 20.84% interest in Rich Top Future.

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2009, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES

Name of Shareholders	Capacity/Nature	No. of Shares	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	1,010,532,000 (L)	60.88
Xian Sheng	Beneficial owner	124,020,000 (L)	7.47
Glories Site	Interest of controlled corporation *(Note 2)*	1,010,532,000 (L)	60.88
Hong Kong Shenguan	Interest of controlled corporation *(Note 3)*	1,134,552,000 (L)	68.35
Schroder Investment Management (Hong Kong) Limited	Investment manager	89,528,000 (L)	5.39
Mr. Sha	Interest of spouse *(Note 4)*	1,134,552,000 (L)	68.35

Notes:

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

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

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

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

Save as disclosed above, and as at 31 December 2009, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share option scheme" below, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective associates, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

COMPETING INTERESTS

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

The Board has established a committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review on an annual basis of the non-competition undertakings (the "Non-competition Undertakings") given by Ms. Zhou, Mr. Low Jee Keong and Mr. Wei Cheng in three deeds of non-competition respectively entered into by Ms. Zhou, Mr. Low Jee Keong and Mr. Wei Cheng, all dated 19 September 2009. Ms. Zhou, Mr. Low Jee Keong and Mr. Wei Cheng confirmed that (a) they have provided all information necessary for the enforcement of the Non-competition Undertakings as requested by the Committee from time to time; and (b) from the effective date of their deeds of non-competition and up to 31 December 2009, they had complied with the Non-competition Undertakings. The Committee was not aware of any non-compliance with the Non-competition Undertakings given by Ms. Zhou, Mr. Low Jee Keong and Mr. Wei Cheng during the same period.

SHARE OPTION SCHEME

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

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

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

The total number of securities available for issue under the Scheme as at the date of this report was 160,000,000 Shares which represented approximately 9.64% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

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

Name or category of participant	At 1 January 2009	Number of share options granted during the Year	Number of share options lapsed/ forfeited during the Year	Number of share options cancelled during the Year	Number of share options exercised during the Year	At 31 December 2009	Date of grant of share options	Vesting period of share options*	End of exercise period	Exercise price of share options** *HK$ per share*	Share price as at the date of grant of the share options*** *HK$ per share*
Directors											
Ms. Cai Yueqing	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	–	1,000,000	–	–	–	1,000,000					
Mr. Shi Guicheng	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	–	1,000,000	–	–	–	1,000,000					
Mr. Ru Xiquan	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	–	200,000	–	–	–	200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	–	1,000,000	–	–	–	1,000,000					
	–	*3,000,000*	–	–	–	*3,000,000*					
Other employees											
In aggregate	–	600,000	–	–	–	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	4.33	4.33
	–	600,000	–	–	–	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	4.33	4.33
	–	600,000	–	–	–	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	4.33	4.33
	–	600,000	–	–	–	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	4.33	4.33
	–	600,000	–	–	–	600,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	4.33	4.33
	–	*3,000,000*	–	–	–	*3,000,000*					
	–	**6,000,000**	**–**	**–**	**–**	**6,000,000**					

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

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

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

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

The Directors have estimated the values of the share options granted during the Year, calculated using the binomial option pricing model as at the date of grant of the options, as follows:

Grantee	**Number of options granted during the Year**	**Theoretical value of share options**
		HK$
Ms. Cai Yue Qing	1,000,000	1,643,562
Mr. Shi Guicheng	1,000,000	1,643,562
Mr. Ru Xiquan	1,000,000	1,643,562
Other employees	3,000,000	4,829,512
	6,000,000	9,760,198

The binomial option pricing model is a generally accepted method of valuing options. The binomial model involves the construction of a binomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. The significant assumptions used in the calculation of the values of the share options were risk-free interest rate, expected volatility and expected dividend. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Further details of the Scheme are disclosed in note 27 to the financial statements.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

During the Year, the Group had entered into the following connected transactions which is not exempt under Rule 14A.31 of the Listing Rules:

On 17 December 2009, in accordance with the terms of an assets transfer agreement of the same date (the "Agreement"), Wuzhou Shenguan, a non-wholly-owned subsidiary of the Company, acquired from Wuzhou Sanjian a parcel of land in Wuzhou and certain buildings and ancillary structures erected thereon at a cash consideration of RMB3,003,600. The said consideration should be paid by Wuzhou Shenguan to Wuzhou Sanjian (i) as to 50% upon the Agreement becoming effective; and (ii) as to the remaining 50% when all relevant registration procedures regarding the transfer of the legal rights and land use rights of the assets to be transferred are completed. As at the date of this report, the transfers of titles of the assets mentioned above were still in progress.

Wuzhou Sanjian is owned as to 97.67% by Mr. Sha and 2.33% by Mr. Sha Weiming, a cousin of Mr. Sha. Mr. Sha is the spouse of Ms. Zhou, a Director and a controlling shareholder of the Company. Therefore, Wuzhou Sanjian is a connected person of the Company.

As each of the applicable percentage ratios is less than 2.5%, according to Rule 14A.32(1) of the Listing Rules, the Agreement is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information, please refer to the announcement issued by the Company on 17 December 2009.

Continuing connected transactions

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

(i) Transactions with Wuzhou Junye Printing Material

On 19 September 2009, Wuzhou Shenguan, as purchaser, and Wuzhou Junye Printing Material, as seller, entered into a sale and purchase agreement for the sales of inner packaging materials for a term ending on 31 December 2011. The purchases by the Group from Wuzhou Junye Printing Material under the said agreement for the Year amounted to RMB9,901,000 and the annual cap set in the said agreement for the Year is RMB10,500,000.

Wuzhou Junye Printing Material is owned by Mr. Sha, the spouse of Ms. Zhou, as to 90% and by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, as to 10%. Ms. Zhou is a Directors and a controlling shareholder of the Company. Wuzhou Junye Printing Material is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(ii) Transactions with Exceltech

On 19 September 2009, Exceltech, as purchaser, and Wuzhou Shenguan, as seller, entered into a sale and purchase agreement for the sales of the Group's products for a term ending on 31 December 2011. The sales from the Group to Exceltech under the said agreement for the Year amounted to RMB2,389,000 and the annual cap set in the said agreement for the Year is RMB2,400,000.

Exceltech is a sole proprietorship registered in Malaysia and is owned by Mr. Low Jee Keong, a Director, and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(iii) Transactions with C.T. Company

On 19 September 2009, C.T. Company, as purchaser, and Wuzhou Shenguan, as seller, entered into a sale and purchase agreement for the sales of the Group's products for a term ending on 31 December 2011. The sales from the Group to C.T. Company under the said agreement for the Year amounted to RMB1,365,000 and the annual cap set in the said agreement for the Year is RMB2,800,000.

C.T. Company is an entity registered in California, the U.S. and is owned by Mr. Wei Cheng, a director of Wuzhou Shenguan, a subsidiary of the Company, and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

For further details of the transactions stated in (i), (ii) and (iii) above, please refer to the section headed "Connected transactions" in the prospectus of the Company dated 30 September 2009.

The following continuing connected transactions have also been entered into by the Group, which involved an aggregate annual consideration below HK$1,000,000 and hence falls within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules. Therefore, the following transactions are not subject to any of the reporting, announcement and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

On 22 September 2009, C.T. Company and Wuzhou Shenguan entered into an agency agreement to engage C.T. Company as the Group's agent for locating new clients in South America for a term ending on 31 December 2011, pursuant to which the commissions to be payable to C.T. Company on an annual basis would be less than HK$1,000,000 for each of the three years ending 31 December 2011. The commissions paid by the Group under the said agreement for the Year are RMB249,000.

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

The auditors of the Company has confirmed to the Board on matters stated in Rule 14A.38 of the Listing Rules in relation to the above continuing connected transactions.

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 32 to the financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

COMPLIANCE ADVISOR'S INTERESTS

As updated and notified by the Company's compliance advisor, China Merchants Securities (HK) Co., Limited (''CMS''), as at 31 December 2009, neither CMS nor any of its directors, employees or associates had any interests in the shares of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

Pursuant to the compliance advisor agreement dated 19 September 2009 entered into with the Company, CMS received and will receive fees for acting as the Company's compliance advisor for the period commencing on the Listing Date and ending on the date which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial result for the first full financial year after the Listing Date.

CORPORATE GOVERNANCE

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules. Since its listing on the Stock Exchange, the Company has complied with the code provisions of the Code for the year ended 31 December 2009, save for the exceptions explained in the Corporate Governance Report in this report.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

The Group has no significant event occurring after the end of the reporting period and up to the date of this report.

AUDITORS

The financial statements for the year ended 31 December 2009 have been audited by the Company's auditors, Ernst & Young (who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting).

ON BEHALF OF THE BOARD

Zhou Yaxian
Chairman

Hong Kong
22 March 2010

Independent Auditors' Report

ERNST & YOUNG
安 永

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

We have audited the financial statements of Shenguan Holdings (Group) Limited set out on pages 41 to 101, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

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

Independent Auditors' Report

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

22 March 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	4	**794,418**	454,053
Cost of sales		**(308,641)**	(203,971)
Gross profit		**485,777**	250,082
Other income and gains	4	**3,548**	3,882
Selling and distribution costs		**(11,191)**	(7,153)
Administrative expenses		**(79,587)**	(23,109)
Other expenses		**–**	(1,240)
Finance costs	5	**(11,448)**	(8,836)
PROFIT BEFORE TAX	6	**387,099**	213,626
Income tax expense	9	**(35,998)**	(16,812)
PROFIT FOR THE YEAR		**351,101**	196,814
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(111)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(111)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**350,990**	196,814
Profit attributable to:			
Owners of the Company	10	**326,061**	172,853
Minority interests		**25,040**	23,961
		351,101	196,814
Total comprehensive income attributable to:			
Owners of the Company		**325,950**	172,853
Minority interests		**25,040**	23,961
		350,990	196,814
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		
Basic (RMB cents per share)		**25**	N/A
Diluted (RMB cents per share)		**25**	N/A

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

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**470,477**	207,898
Investment property	14	**–**	133
Prepaid land lease payments	15	**31,786**	27,479
Patent	16	**2,003**	2,861
Deferred tax assets	17	**13,354**	2,908
Long term prepayments		**43,520**	30,019
Total non-current assets		**561,140**	271,298
CURRENT ASSETS			
Inventories	19	**46,862**	26,817
Trade receivables	20	**77,996**	27,392
Prepayments, deposits and other receivables	21	**37,765**	11,865
Tax recoverable		**1,168**	–
Cash and cash equivalents	22	**1,027,862**	128,535
Total current assets		**1,191,653**	194,609
CURRENT LIABILITIES			
Trade payables	23	**24,227**	17,385
Other payables and accruals	24	**105,578**	50,977
Interest-bearing bank borrowings	25	**–**	48,000
Tax payable		**19,808**	2,812
Total current liabilities		**149,613**	119,174
NET CURRENT ASSETS		**1,042,040**	75,435
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,603,180**	346,733
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**74,900**	53,000
Deferred income		**11,171**	3,038
Deferred tax liabilities	17	**1,091**	–
Total non-current liabilities		**87,162**	56,038
Net assets		**1,516,018**	290,695

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	**14,624**	63,125
Reserves	28(a)	**1,482,017**	186,955
		1,496,641	250,080
Minority interests		**19,377**	40,615
Total equity		**1,516,018**	290,695

Zhou Yaxian
Director

Ru Xiquan
Director

Consolidated Statement of Changes in Equity

31 December 2009

	Notes	Attributable to owners of the Company										Minority interests	Total equity
		Issued capital	Share premium account*	Contributed surplus*	Reserve funds*	Capital reserves*	Employee share-based compensation reserve*	Exchange fluctuation reserve*	Other reserve*	Retained profits*	Total		
		RMB'000	RMB'000	RMB'000 (note 28(a)(i))	RMB'000 (note 28(a)(ii))	RMB'000	RMB'000	RMB'000	RMB'000 (note 28(a)(iii))	RMB'000	RMB'000	RMB'000	RMB'000
At 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		68	-	-	-	-	-	-	-	-	68	-	68
Capitalisation of reserves		37,249	-	-	(6,356)	(30,893)	-	-	-	-	-	-	-
Disposal of interests in a subsidiary to minority shareholders		(2,396)	-	-	-	-	-	-	(16,436)	-	(18,832)	18,832	-
Dividends to then shareholders of a subsidiary	11	-	-	-	-	-	-	-	-	(83,990)	(83,990)	(13,644)	(97,634)
Transfer from retained profits		-	-	-	18,254	-	-	-	-	(18,254)	-	-	-
At 31 December 2008 and at 1 January 2009		63,125	-	-	26,281	5,404	-	-	(20,548)	175,818	250,080	40,615	290,695
Profit for the year		-	-	-	-	-	-	-	-	326,061	326,061	25,040	351,101
Other comprehensive income		-	-	-	-	-	-	(111)	-	-	(111)	-	(111)
Total comprehensive income for the year		-	-	-	-	-	-	(111)	-	326,061	325,950	25,040	350,990
Acquisition of minority interests in a subsidiary		10,152	-	-	-	-	-	-	4,180	-	14,332	(14,332)	-
Capitalisation of reserves		9,461	-	-	(8,815)	(646)	-	-	-	-	-	-	-
Dividends to then shareholders of subsidiaries	11	-	-	-	-	-	-	-	-	(284,212)	(284,212)	(45,509)	(329,721)
Distribution to then shareholders of a subsidiary		-	-	-	-	-	-	-	(81,771)	-	(81,771)	-	(81,771)
Deemed disposal of interests in a subsidiary to minority shareholders		-	-	-	-	-	-	-	(2,292)	-	(2,292)	2,292	-
Elimination of registered capital in connection with the Reorganisation		(82,738)	-	68	-	-	-	-	82,670	-	-	-	-
Issue of shares in connection with the Reorganisation	26	9	-	(9)	-	-	-	-	-	-	-	-	-
Capital contribution from minority shareholders		-	-	-	-	-	-	-	-	-	-	11,271	11,271
Capitalisation issue	26(a)	10,563	(10,563)	-	-	-	-	-	-	-	-	-	-
Waiver of amounts due to related parties		-	-	-	-	-	-	-	83,095	-	83,095	-	83,095
Issue of shares in connection with the Listing	26(b)	3,524	1,088,891	-	-	-	-	-	-	-	1,092,415	-	1,092,415
Over-allotment of shares	26(c)	528	163,334	-	-	-	-	-	-	-	163,862	-	163,862
Share issue expense		-	(65,660)	-	-	-	-	-	-	-	(65,660)	-	(65,660)
Equity-settled share option arrangement		-	-	-	-	-	842	-	-	-	842	-	842
Transfer from retained profits		-	-	-	39,256	-	-	-	-	(39,256)	-	-	-
At 31 December 2009		14,624	1,176,002	59	56,722	4,758	842	(111)	65,334	178,411	1,496,641	19,377	1,516,018

* *These reserve accounts comprise the consolidated reserves of RMB1,482,017,000 (2008: RMB186,955,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**387,099**	213,626
Adjustments for:			
Interest on bank loans	*5*	**14,367**	9,136
Bank interest income	*4*	**(1,679)**	(1,277)
Loss on disposal of items of property, plant and equipment	*6*	**2,204**	312
Depreciation	*6*	**19,998**	12,169
Amortisation of prepaid land lease payments	*6*	**642**	379
Amortisation of patent	*6*	**858**	859
Government grants released		**(4,786)**	(579)
Equity-settled share option expense	*27*	**842**	–
		419,545	234,625
Decrease/(increase) in inventories		**(20,045)**	2,294
Increase in trade receivables		**(50,604)**	(2,233)
Increase in prepayments, deposits and other receivables		**(24,306)**	(5,841)
Increase in trade payables		**6,842**	8,304
Increase in other payables and accruals		**39,283**	17,187
Receipt of government grants		**12,919**	3,617
Cash generated from operations		**383,634**	257,953
Interest received		**1,679**	1,277
PRC profits tax refunded/(paid)		**(29,525)**	6,610
Net cash flows from operating activities		**355,788**	265,840
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(266,181)**	(99,721)
Proceeds from disposal of items of property, plant and equipment		**64**	4
Refund from a related party		**–**	17,951
Decrease in available-for-sale investments		**–**	6,100
Prepayments of land lease payments		**(24,465)**	(11,187)
Decrease in equity investments at fair value through profit or loss		**–**	207
Increase in non-pledged time deposits with original maturity of more than three months when acquired		**(83,507)**	–
Net cash flows used in investing activities		**(374,089)**	(86,646)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of new shares in connection with the Listing		**1,190,617**	–
Capital contribution from minority shareholders		**11,271**	–
Capital contribution		**–**	68
New bank loans		**406,900**	76,875
Repayment of bank loans		**(433,000)**	(77,927)
Interest paid		**(14,367)**	(9,136)
Dividends paid to then shareholders of subsidiaries		**(260,381)**	(76,447)
Dividends paid to minority shareholders		**(66,940)**	(21,187)
Net cash flows from/(used in) financing activities		**834,100**	(107,754)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**815,799**	71,440
Cash and cash equivalents at beginning of year		**128,535**	57,095
Effect of foreign exchange rate changes, net		**21**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**944,355**	128,535
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**719,034**	127,035
Non-pledged time deposits with original maturity of less than three months when acquired		**225,321**	1,500
		944,355	128,535

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	18	**1,340,067**
Total non-current assets		**1,340,067**
CURRENT ASSETS		
Amounts due from subsidiaries	18	**113,889**
Other receivables	21	**3,198**
Bank balance	22	**3**
Total current assets		**117,090**
CURRENT LIABILITIES		
Amount due to a subsidiary	18	**1,697**
Other payables	24	**3,064**
Total current liabilities		**4,761**
NET CURRENT ASSETS		**112,329**
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,452,396**
Net assets		**1,452,396**
EQUITY		
Issued capital	26	**14,624**
Reserves	28(b)	**1,437,772**
Total equity		**1,452,396**

Zhou Yaxian
Director

Ru Xiquan
Director

Notes to Financial Statements

31 December 2009

1. Corporate Information

Shenguan Holdings (Group) Limited (the "Company") was incorporated in the Cayman Islands on 24 February 2009 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is located at Unit 2902, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

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

Pursuant to a reorganisation of the Group as detailed in the section headed "Corporate Reorganisation" in Appendix VII to the Prospectus of the Company dated 30 September 2009 (the "Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Stock Exchange (the "Listing") on 13 October 2009 (the "Listing Date").

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years ended 31 December 2009 and 2008 or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

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

2.1 Basis of Presentation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The amendment has no impact on the disclosure on fair value measurement disclosures and liquidity risk.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

- HKAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(n) (Continued)

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 28 *Investments in Associates:* Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

- HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. 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 while the 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 or interpretation.

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

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised) and HKFRS 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.

2.4 Summary of Significant Accounting Policies

Basis of combination

The financial statements incorporate the financial statements of the Company and its subsidiaries now comprising the Group for the year ended 31 December 2009. As explained in note 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 year ended 31 December 2009 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 as if they had been consolidated 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 recognised 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 common control combination.

The consolidated 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 unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidated in full.

Minority 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. Any excess of the Group's interest on the book value of the acquirees' identified assets, liabilities and contingent liabilities over the cost of acquisition of minority interests, after reassessment, is recognised immediately in the statement of comprehensive income.

2.4 Summary of Significant Accounting Policies (Continued)

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 interests 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 recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to 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 the end of the reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to 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 or any of its holding companies;

(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).

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Investment property

Investment property is interests in land and building 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.

In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. All other repairs and maintenance costs are expensed in the statement of comprehensive income during the financial period in which they are incurred.

For a transfer from an investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

Intangible assets

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

Patent

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised 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.

2.4 Summary of Significant Accounting Policies (Continued)

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 recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within 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. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised 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.

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

The Group's financial assets include cash and cash equivalents, and trade and other receivables.

Subsequent measurement

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

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. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the statement of comprehensive income and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as “Other income” in accordance with the policies set out for “Revenue recognition” below.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has available interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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

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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other 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 derecognised when:

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

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

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.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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; a discounted cash flow analysis; and option pricing models.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised 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 recognised 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 utilised, 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 recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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.

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

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

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

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

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

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payment transactions (Continued)

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

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

Other employee benefits

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

The costs of employee retirement benefits are recognised as cost of sales and administrative expenses in 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 capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the statement of comprehensive income in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statement of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.5 Significant Accounting Estimates

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

2.5 Significant Accounting Estimates (Continued)

Estimation uncertainty (Continued)

Impairment of receivables

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

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down 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 of inventories 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 amortisation 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 amortisation 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 amortisation expense in the future periods.

3. Operating 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:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Western-style collagen sausage casing	**722,856**	395,511
Chinese-style collagen sausage casing	**71,562**	58,542
	794,418	454,053

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3. Operating Segment Information (Continued)

Information about geographical areas

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

Information about major customers

For the year ended 31 December 2009, revenue generated from one (2008: one) customer of the Group amounting to RMB304,720,000 (2008: RMB171,480,000) has individually accounted for over 10% of the Group's total revenue.

4. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced goods sold after allowances for returns and trade discounts during the year.

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**794,418**	454,053
Other income, net		
Bank interest income	**1,679**	1,277
Sales of dried meat products	**913**	1,659
Rental income	**10**	11
Government grants*	**562**	129
Others	**136**	178
	3,300	3,254
Gains		
Gain on disposal of equity investments at fair value through profit or loss	**248**	539
Gain on disposal of available-for-sale investments	**–**	89
	248	628
	3,548	3,882

* Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land lease and plant and equipment. The government grants received relating to assets were recognised as deferred income when conditions of these government grants were fulfilled, and released to the other income over the expected useful lives of the relevant assets. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2009.

5. Finance Costs

	Group	
	2009	2008
	RMB'000	*RMB'000*
Interest on bank loans	**14,367**	9,136
Less: Government grants*	**(2,919)**	(300)
	11,448	8,836

* 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 31 December 2009.

6. Profit before tax

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

		2009	2008
	Notes	***RMB'000***	*RMB'000*
Cost of inventories sold		**117,796**	84,262
Depreciation:			
Property, plant and equipment	13	**19,994**	12,166
Investment property	14	**4**	3
		19,998	12,169
Loss on disposal of items of property, plant and equipment		**2,204**	312
Amortisation of patent*	16	**858**	859
Amortisation of prepaid land lease payments	15	**642**	379
Foreign exchange differences, net		**64**	425
Impairment of trade receivables	20	**1,128**	1,267
Reversal of impairment of other receivables		**(21)**	(339)
Research and development costs:			
Current year expenditure		**23,390**	23,102
Less: Government grants released**		**(1,305)**	(150)
		22,085	22,952

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6. Profit before tax (Continued)

	2009 RMB'000	2008 RMB'000
Employee benefit expense (including directors' remuneration (note 7)):		
Wages and salaries	**79,402**	29,970
Equity-settled share option expense	**842**	–
Retirement benefit contributions	**8,818**	3,756
	89,062	33,726
Minimum lease payments under operating leases in respect of buildings	**615**	42
Auditors' remuneration	**1,763**	40

* The amortisation of patent is included in "Administrative expenses" on the face of the consolidated 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 consolidated statement of financial position. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2009.

7. Directors' Remuneration

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

	Group	
	2009 RMB'000	2008 RMB'000
Fees	**180**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**873**	270
Discretionary performance related bonuses	**8,819**	4,136
Equity-settled share option expense	**426**	–
Retirement benefit contributions	**12**	11
	10,130	4,417
	10,310	4,417

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been recognised in the statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

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7. Directors' Remuneration (Continued)

(a) Independent non-executive directors

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

	2009 RMB'000	2008 RMB'000
Mr. Tsui Yung Kwok	45	–
Mr. Meng Qinguo	45	–
Mr. Yang Xiaohu	45	–
	135	–

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2009						
Executive directors:						
Ms. Zhou Yaxian	–	396	4,010	–	3	4,409
Ms. Cai Yueqing	–	159	1,603	142	3	1,907
Mr. Shi Guicheng	–	159	1,603	142	3	1,907
Mr. Ru Xiquan	–	159	1,603	142	3	1,907
	–	873	8,819	426	12	10,130
Non-executive director:						
Mr. Low Jee Keong	45	–	–	–	–	45
	45	873	8,819	426	12	10,175

7. Directors' Remuneration (Continued)

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

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008					
Executive directors:					
Ms. Zhou Yaxian	–	123	1,880	3	2,006
Ms. Cai Yueqing	–	49	752	3	804
Mr. Shi Guicheng	–	49	752	3	804
Mr. Ru Xiquan	–	49	752	2	803
	–	270	4,136	11	4,417
Non-executive director:					
Mr. Low Jee Keong	–	–	–	–	–
	–	270	4,136	11	4,417

Except for the year ended 31 December 2008, where certain directors had waived performance bonuses in aggregate of RMB2,519,000, there was no other arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2008 and 2009.

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2008: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**49**	49
Performance related bonuses	**1,603**	752
Equity-settled share option expense	**142**	–
Pension scheme contributions	**3**	3
	1,797	804

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

	Number of employees	
	2009	2008
Nil to RMB1,000,000	**–**	1
RMB1,500,001 to RMB2,000,000	**1**	–
	1	1

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such options, which has been recognised to the statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

9. Income 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 year ended 31 December 2009.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") and Wuzhou Shenguan Biological Industrial Development Limited ("Shenguan Biological"), being the Company's subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are 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 enterprises engaged in manufacturing are exempted from EIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and are 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 three years ended 31 December 2007, 2008 and 2009.

	2009	2008
	RMB'000	*RMB'000*
Group:		
Current tax charge for the year		
– PRC	**45,353**	2,521
Deferred tax *(note 17)*	**(9,355)**	14,291
Total tax charge for the year	**35,998**	16,812

9. Income Tax (Continued)

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

Group – 2009

	Mainland China		Hong Kong		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax	414,416		(27,317)		387,099	
Tax at the statutory tax rate	103,604	25.0	(4,507)	16.5	99,097	25.6
Lower tax rate for specific provinces or enacted by local authority	(71,725)		–		(71,725)	
Effect of higher enacted tax rate used for the recognition of deferred tax	(5,021)		–		(5,021)	
Expenses not deductible for tax	463		4,529		4,992	
Income not subject to tax	(6)		(22)		(28)	
Recognition of prior years' temporary differences not recognised	(2,588)		–		(2,588)	
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	11,271		–		11,271	
Tax charge at the Group's effective rate	35,998	8.7	–	–	35,998	9.3

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9. Income Tax (Continued)

Group – 2008

	Mainland China	
	RMB'000	*%*
Profit before tax	213,626	
Tax at the statutory tax rate	53,407	25.0
Lower tax rate for specific provinces or enacted by local authority	(37,336)	
Effect on opening deferred tax of decrease in rate	616	
Effect of higher enacted tax rate used for the recognition of deferred tax	(324)	
Expenses not deductible for tax	449	
Tax charge at the Group's effective rate	16,812	7.9

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of RMB87,877,000 (2008: Nil) which has been dealt with in the financial statements of the Company (note 28(b)).

11. Dividends

	2009	2008
	RMB'000	*RMB'000*
Dividends declared by the Company's subsidiaries to their then shareholders	**329,721**	97,634
Final dividend proposed subsequent to the reporting period		
– HK4.6 cents per ordinary share	**67,295**	–
	397,016	97,634

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

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

The calculation of basic earnings per share amount for the year ended 31 December 2009 is based on the profit for the year attributable to ordinary owners of the Company of RMB326,061,000, and the weighted average number of ordinary shares of 1,300,658,000 in issue during the year ended 31 December 2009, on the assumption that the Reorganisation and the capitalisation issue, as detailed in notes 1 and 26, respectively, had been completed on 1 January 2009.

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

The calculation of diluted earnings per share amount for the year ended 31 December 2009 is based on the profit for the year attributable to ordinary owners of the Company of RMB326,061,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2009, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 236,000 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Earnings per share information for the year ended 31 December 2008 was not presented for the purpose of these financial statements, as it is not considered meaningful due to the Reorganisation as disclosed in note 1 above.

13. Property, Plant and Equipment

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2009					
At 31 December 2008 and at 1 January 2009:					
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 1 January 2009, net of accumulated depreciation	65,507	130,484	5,989	5,918	207,898
Additions	4,294	16,075	1,893	262,450	284,712
Disposals	(2,092)	(136)	(5)	(35)	(2,268)
Depreciation provided during the year	(2,833)	(16,465)	(696)	–	(19,994)
Transfers	47,037	162,579	571	(210,187)	–
Transfer from investment property	129	–	–	–	129
At 31 December 2009, net of accumulated depreciation	112,042	292,537	7,752	58,146	470,477
At 31 December 2009:					
Cost	129,418	350,027	10,106	58,146	547,697
Accumulated depreciation	(17,376)	(57,490)	(2,354)	–	(77,220)
Net carrying amount	112,042	292,537	7,752	58,146	470,477

Notes to Financial Statements

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13. Property, Plant and Equipment (Continued)

Group (Continued)

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2008					
At 1 January 2008:					
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 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, net of accumulated depreciation	65,507	130,484	5,989	5,918	207,898
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 31 December 2008, certain of the Group's buildings and plant and machinery with a net book value of RMB62,229,000 were pledged to secure bank loans granted to the Group (note 25(a)).

14. Investment Property

	Group	
	2009	2008
	RMB'000	*RMB'000*
At beginning of year, net of accumulated depreciation	**133**	136
Depreciation provided during the year	**(4)**	(3)
Transfer to owner-occupied property	**(129)**	–
At end of year, net of accumulated depreciation	**–**	133
At end of year:		
Cost	**–**	150
Accumulated depreciation	**–**	(17)
Net carrying amount	**–**	133

At 31 December 2008, the Group's investment property was situated in Mainland China and was held under a long term lease.

15. Prepaid Land Lease Payments

	Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount at beginning of year	**28,076**	8,299
Additions during the year	**6,675**	20,156
Recognised during the year	**(642)**	(379)
Carrying amount at end of year	**34,109**	28,076
Current portion included in prepayments, deposits and other receivables	**(2,323)**	(597)
Non-current portion	**31,786**	27,479

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

At 31 December 2008, certain of the Group's prepaid land lease payments with a carrying amount of RMB8,105,000 were pledged to secure bank loans granted to the Group (note 25(a)).

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16. Patent

	Group	
	2009	2008
	RMB'000	*RMB'000*
At beginning of year, net of accumulated amortisation	**2,861**	3,720
Amortisation provided during the year	**(858)**	(859)
At end of year, net of accumulated amortisation	**2,003**	2,861
At end of year:		
Cost	**6,867**	6,867
Accumulated amortisation	**(4,864)**	(4,006)
Net carrying amount	**2,003**	2,861

17. Deferred Tax

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

Deferred tax assets

Group

	Impairment provision against trade receivables	Foreign Enterprise Income Tax credit	Deferred government grants	Depreciation in excess of related depreciation allowance	Accrued salary	Losses 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 2008	1,402	14,657	–	1,140	–	–	17,199
Deferred tax credited/(charged) to the statement of comprehensive income *(note 9)*	(94)	(14,657)	–	(59)	–	519	(14,291)
At 31 December 2008 and at 1 January 2009	1,308	–	–	1,081	–	519	2,908
Deferred tax credited/(charged) to the statement of comprehensive income *(note 9)*	366	–	2,490	1,326	6,783	(519)	10,446
At 31 December 2009	1,674	–	2,490	2,407	6,783	–	13,354

Deferred tax liabilities

Group

	Withholding tax
	RMB'000
At 1 January 2009	–
Deferred tax charged to the statement of comprehensive income *(note 9)*	1,091
At 31 December 2009	1,091

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 Mainland China. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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18. Interests in Subsidiaries

	Company
	2009
	RMB'000
Unlisted shares, at cost	172,636
Advances to subsidiaries	1,166,589
Capital contribution in respect of employee share-based compensation	842
	1,340,067

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB113,889,000 and RMB1,697,000, respectively, are unsecured, interest-free and are repayable on demand or within one year.

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and not repayable within one year.

Particulars of the principal subsidiaries at 31 December 2009 are as follows:

Name	Place 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	HK$1	–	100%	Investment holding
Forever Gather Limited ("Forever Gather")	Hong Kong	HK$1	–	100%	Investment holding
Full Win Consultants Limited *	BVI/Hong Kong	US$1	100%	–	Investment holding
Jumbo Gain Developments Limited*	BVI/Hong Kong	US$1	100%	–	Investment holding
Shenguan Industrial Company Limited*	BVI/Hong Kong	US$10,000	100%	–	Investment holding
Shenguan Investments Company Limited ("Shenguan Investments")	Hong Kong	HK$0.01	–	100%	Dormant
梧州神冠蛋白腸衣有限公司 (Wuzhou Shenguan)*	PRC/Mainland China	RMB460,000,000	–	97%	Manufacture and sale of collagen sausage casing

18. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued/registered paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
梧州市神冠生物實業開發有限公司 (Shenguan Biological)*	PRC/Mainland China	RMB30,000,000	–	97%	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)*	PRC/Mainland China	RMB10,000,000	–	97%	Collagen technology consulting services

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. Inventories

	Group 2009 RMB'000	2008 RMB'000
Raw materials	**33,242**	22,305
Work in progress	**7,009**	2,040
Finished goods	**6,611**	2,472
	46,862	26,817

20. Trade Receivables

	Group 2009 RMB'000	2008 RMB'000
Trade receivables	**84,053**	32,364
Due from a related company	**638**	595
Less: Impairment	**(6,695)**	(5,567)
	77,996	27,392

20. Trade Receivables (Continued)

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 minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group has provided impairment loss on trade receivables based on past experience of collecting payments. Trade receivables are non-interest-bearing.

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**75,107**	24,382
3 to 4 months	**490**	177
Over 4 months	**1,761**	2,238
	77,358	26,797

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

		Group	
		2009	2008
	Note	***RMB'000***	*RMB'000*
At beginning of year		**5,567**	4,300
Impairment loss recognised	6	**1,128**	1,267
At end of year		**6,695**	5,567

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB6,695,000 (2008: RMB5,567,000) 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.

20. Trade Receivables (Continued)

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**69,934**	17,609
Less than 1 month past due	**4,907**	4,657
1 to 2 months past due	**404**	2,293
Over 2 months past due	**2,113**	2,238
	77,358	26,797

Due from a related company:

	Group		
	31 December 2009	**Maximum amount outstanding during the year**	**1 January 2009**
	RMB'000	***RMB'000***	***RMB'000***
Exceltech Enterprise ("Exceltech")	**638**	**1,343**	**595**

The above related company is controlled by Mr. Low Jee Keong, a director of the Company. The amount due from Exceltech is unsecured, non-interest-bearing and has a repayment term of 60 days, which is on term similar to those 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 of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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21. Prepayments, Deposits and Other Receivables

	Group		Company
	2009	2008	**2009**
	RMB'000	*RMB'000*	***RMB'000***
Prepayments	**12,714**	9,873	**–**
Deposits and other receivables	**25,051**	1,992	**3,198**
	37,765	11,865	**3,198**

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

22. Cash and Cash Equivalents

	Group		Company
	2009	2008	**2009**
	RMB'000	*RMB'000*	***RMB'000***
Cash and bank balances	**719,034**	127,035	**3**
Time deposits	**308,828**	1,500	**–**
	1,027,862	128,535	**3**

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB534,336,000 (2008: RMB128,467,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

23. Trade Payables

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 1 month	**18,687**	12,760
1 to 2 months	**2,217**	2,829
2 to 3 months	**897**	639
Over 3 months	**2,426**	1,157
	24,227	17,385

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

Included in the trade payables is a trade payable of RMB1,000 (2008: RMB203,000) to Wuzhou Junye Trademark Printing Material Co., Ltd. ("Wuzhou Junye Printing Material"). Wuzhou Junye Printing Material is controlled by the spouse of Ms. Zhou Yaxian, a director of the Company. The balance is unsecured, interest-free and is repayable within 20 days after receipt of goods.

24. Other Payables and Accruals

	Group		Company
	2009	2008	**2009**
	RMB'000	*RMB'000*	***RMB'000***
Advances from customers	**9,146**	13,553	**–**
Accruals	**44,316**	17,224	**–**
Other payables	**48,214**	19,716	**3,064**
Due to related parties	**1,502**	484	**–**
Due to a minority shareholder	**2,400**	–	**–**
	105,578	50,977	**3,064**

Other payables are non-trade, unsecured and non-interest-bearing and are normally settled in 60-day terms.

24. Other Payables and Accruals (Continued)

Due to related parties:

	Notes	Group 2009 RMB'000	2008 RMB'000
C.T. Company	*(a)*	**–**	234
Guangxi Wuzhou Sanjian Medicine Co. Ltd. ("Wuzhou Sanjian")	*(b)*	**1,502**	250
		1,502	484

Notes:

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

(b) The balance due to Wuzhou Sanjian, a company controlled by the spouse of Ms. Zhou Yaxian, is unsecured, interest-free and repayable upon completion of the relevant transaction.

25. Interest-Bearing Bank Borrowings

Group

	2009			2008		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans:						
– unsecured			**–**	5.58-5.84	2009	20,000
Current portion of long term bank loans:						
– secured *(note (a))*			**–**	6.34-8.51	2009	18,000
– unsecured			**–**	7.02	2009	10,000
			–			48,000
Non-current						
Bank loans:						
– secured *(note (a))*			**–**	7.74-8.32	2010-2011	33,000
– unsecured	**5.18-5.76**	**2012-2014**	**74,900**	7.02	2010	20,000
			74,900			53,000
			74,900			101,000

25. Interest-Bearing Bank Borrowings (Continued)

	Group	
	2009	2008
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year	**–**	48,000
In the second year	**–**	33,000
In the third to fifth years, inclusive	**74,900**	20,000
	74,900	101,000

Notes:

(a) The Group's long term loans as at 31 December 2008 were secured by the Group's prepaid land lease, buildings and plant and machinery situated in Mainland China, which had an aggregate carrying value of RMB70,334,000.

(b) All borrowings are denominated in RMB.

The carrying amounts of the Group's current and floating rate borrowings approximate to their fair values. All of the Group's borrowings at the end of the reporting period are at floating rates.

26. Share Capital

Shares

		2009
		HK$000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each		**200,000**
Issued and fully paid:		
1,660,000,000 ordinary shares of HK$0.01 each		**16,600**
	Equivalent to RMB'000	**14,624**

The issued capital of the Group as at 31 December 2008 represented the aggregate amount of paid-in capital of the companies comprising the Group attributable to owners of the Company at the date, after elimination of investments in subsidiaries. The issued capital of the Group as at 31 December 2009 represented the issued capital of the Company after the completion of the Reorganisation as further detailed in note 1 and the following movements during the year.

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26. Share Capital (Continued)

A summary of the transactions in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares *HK$'000*	Share premium *HK$'000*	Equivalent nominal value of ordinary shares *RMB'000*	Equivalent share premium *RMB'000*	Equivalent total *RMB'000*
On incorporation	–	–	–	–	–	–
Issue of shares in connection with the Reorganisation *(note 1)*	1,000,000	10	–	9	–	9
Capitalisation issue *(note (a))*	1,199,000,000	11,990	(11,990)	10,563	(10,563)	–
Issue of shares in connection with the Listing *(note (b))*	400,000,000	4,000	1,236,000	3,524	1,088,891	1,092,415
Over-allotment of shares *(note (c))*	60,000,000	600	185,400	528	163,334	163,862
	1,660,000,000	16,600	1,409,410	14,624	1,241,662	1,256,286
Share issue expenses	–	–	(74,531)	–	(65,660)	(65,660)
At 31 December 2009	1,660,000,000	16,600	1,334,879	14,624	1,176,002	1,190,626

Notes:

(a) On 19 September 2009, the Company conditionally issued and allotted 1,199,000,000 ordinary shares of HK$0.01 each at par as fully paid to the shareholders whose names appeared on the register of the members of the Company on 19 September 2009 by way of capitalisation of HK$11,990,000 which was then standing to the credit of the share premium account of the Company upon the listing of shares of the Company.

(b) On the Listing Date, the Company's shares were listed on the Stock Exchange and for that the Company issued an addition of 400,000,000 ordinary shares of HK$0.01 each at HK$3.1 per share with gross proceeds of approximately HK$1,240,000,000.

(c) On 14 October 2009, the Company issued an addition of 60,000,000 ordinary shares of HK$0.01 each at HK$3.1 per share with gross proceeds of approximately HK$186,000,000 pursuant to the full exercise of the over-allotment option as referred to in the prospectus of the Company dated 30 September 2009 and the announcement of the Company dated 14 October 2009.

27. Share Option Scheme

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

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

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

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

The offer of a grant of share options may be accepted within 7 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Stock Exchange for less than 5 business days, the issue price shall be used as the closing price for any trading day fall within the period before the Listing Date.

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

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

	2009	
	Weighted average exercise price *HK$ per share*	**Number of options** *'000*
At 1 January	**–**	**–**
Granted during the year	**4.33**	**6,000**
At 31 December	**4.33**	**6,000**

No share options were exercised during the current year.

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27. Share Option Scheme (Continued)

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

2009

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
6,000	4.33	13 October 2010 – 12 October 2015
6,000		

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

The fair value of the share options granted during the year was HK$9,760,000 (equivalent to RMB8,601,000) (HK$1.5579 to HK$1.6639 each) of which the Group recognised a share option expense of RMB842,000 during the year ended 31 December 2009.

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

	2009
Dividend yield *(%)*	**–**
Expected volatility *(%)*	**36.955**
Risk-free interest rate *(%)*	**1.911**
Expected life of options *(year)*	**5.14-5.90**
Weighted average share price *(HK$ per share)*	**4.33**

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

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

At the end of the reporting period, the Company had 6,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,000,000 additional ordinary shares of the Company and additional share capital of HK$60,000 (RMB53,000) and share premium of HK$25,920,000 (RMB22,843,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 6,000,000 share options outstanding under the Scheme, which represented approximately 0.36% of the Shares in issue as at that date.

28. Reserves

(a) Group

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

(i) Contributed surplus

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

(ii) Reserve funds

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

(iii) Other reserves

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

On 18 September 2009, Rich Top Future and Excel Gather entered into an agreement to waive repayment of an advance of HK$32,038,000 (equivalent to RMB28,220,000) to Excel Gather for Excel Gather's acquisition of 33.51% equity interest in Wuzhou Shenguan. On the same date, Glories Sites Limited and Forever Gather also entered into an agreement to waive repayment of an advance to Forever Gather amounting to HK$60,704,000 (equivalent to RMB53,470,000) for Forever Gather's acquisition of a 63.49% equity interests in Wuzhou Shenguan.

On 18 September 2009, Shenguan Investments entered into various agreements with Hong Kong Shenguan, C.T. Company and Exceltech Enterprise to waive repayment of advances to Shenguan Investment aggregating HK$1,595,000 (equivalent to RMB1,405,000) for expenses paid on behalf of the Group.

28. Reserves (Continued)

(b) Company

	Share premium account* RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits* RMB'000	Total RMB'000
On incorporation	–	–	–	–	–	–
Profit for the year	–	–	–	–	87,877	87,877
Exchange realignment	–	–	516	–	–	516
Total comprehensive income for the year	–	–	516	–	87,877	88,393
Issue of shares in connection with the Reorganisation *(note 1)*	–	172,535	–	–	–	172,535
Capitalisation issue *(note 26(a))*	(10,563)	–	–	–	–	(10,563)
Issue of shares in connection with the Listing *(note 26(b))*	1,088,891	–	–	–	–	1,088,891
Over-allotment of shares *(note 26(c))*	163,334	–	–	–	–	163,334
Share issue expenses	(65,660)	–	–	–	–	(65,660)
Equity-settled share option arrangement	–	–	–	842	–	842
At 31 December 2009	**1,176,002**	**172,535**	**516**	**842**	**87,877**	**1,437,772**

* *These reserve accounts comprise the Company's reserves available for distribution amounting to RMB1,263,879,000.*

29. Contingent Liabilities

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

30. Operating Lease Arrangements

(a) As lessor

For the year ended 31 December 2008, the Group leases its property under an operating lease arrangement, with the lease negotiated for one year.

At 31 December 2008, the Group had total future minimum lease receivables amounting to RMB6,000 under a cancellable operating lease with its tenant falling due within one year. No future minimum lease receivables were noted for the Group as at 31 December 2009.

30. Operating Lease Arrangements (Continued)

(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 the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**339**	44
In the second to fifth years, inclusive	**–**	19
	339	63

31. Commitments

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Buildings	**33,972**	24,019
Plant and machinery	**52,031**	22,189
Authorised, but not contracted for:		
Production facilities	**356,928**	–
	442,931	46,208

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

32. Related Party Disclosures

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

	Notes	**2009** **RMB'000**	2008 RMB'000
Then shareholders of a subsidiary:			
Sales of products	*(i)*	**1,365**	887
Commission paid	*(ii)*	**249**	293
Company controlled by a director of the Company:			
Sales of products	*(i)*	**2,389**	3,104
Companies controlled by spouse of a director of the Company:			
Sales of materials	*(iii)*	**455**	412
Purchases of materials	*(iii)*	**695**	795
Rental of boiler	*(iii)*	**20**	130
Purchases of land lease and buildings	*(iv)*	**3,004**	–
Purchases of packing materials	*(iii)*	**9,901**	6,245

Notes:

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

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

(iii) These transactions were conducted at rates mutually agreed between the parties.

(iv) The purchases of land lease and buildings were made with reference to the fair values of the assets as at 28 October 2009.

(b) Balances with related parties

Balances with related parties are detailed in notes 20, 23 and 24 to these financial statements.

(c) Compensation of key management personnel of the Group

	2009 **RMB'000**	2008 RMB'000
Salaries, allowances and benefits in kind	**1,274**	320
Performance related bonuses	**10,861**	4,888
Retirement benefit contributions	**24**	14
Equity-settled share option expense	**704**	–
Total compensation paid to key management personnel	**12,863**	5,222

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

33. Financial Instruments by Category

All financial assets and liabilities of the Group as at 31 December 2008 and 2009 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

34. 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 receivables and trade payables, which arise directly from its operations.

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

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest 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 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 year ended 31 December 2009 would have been lower/higher (through the impact on floating rate borrowings) by the amount of RMB1,958,000 (2008: RMB963,000).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at each of the ends of the reporting periods.

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.

34. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (continued)

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

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

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. 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 during the years ended 31 December 2009 and 2008 and there would be no impact on the Group's equity.

Credit risk

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

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

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

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

34. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate finance to repay the debt related to financial instruments. Liquidity risk may arise from the inability to dispose of financial assets promptly, 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 of the Company, 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 the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	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	**4,084**	**4,084**	**83,342**	**91,510**
Trade payables	**24,227**	**–**	**–**	**24,227**
Other payables and accruals	**105,578**	**–**	**–**	**105,578**
	133,889	**4,084**	**83,342**	**221,315**

	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

Notes to Financial Statements

31 December 2009

34. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (continued)

Company

As at 31 December 2009, the Company had other payables and accruals and an amount due to a subsidiary amounted to RMB3,064,000 and RMB1,697,000, respectively, all of which was repayable within one year or on demand.

Capital management

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**74,900**	101,000
Trade payables	**24,227**	17,385
Other payables and accruals	**105,578**	50,977
Less: Cash and cash equivalents	**(1,027,862)**	(128,535)
Net debt/(asset)	**(823,157)**	40,827
Adjusted capital	**1,496,641**	250,080
Gearing ratio	**(55%)**	16%

Fair value

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

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

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

35. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board on 22 March 2010.

Four Year Financial Summary

The consolidated results of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2009 and the consolidated assets, liabilities and equity of the Group as at 31 December 2009 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the three years ended 31 December 2006, 2007 and 2008 and of the assets, liabilities and minority interests as at 31 December 2006, 2007 and 2008 have been extracted from the prospectus issued on 30 September 2009 in connection with the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited on 13 October 2009. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in note 2.1 to the financial statements.

No financial statement of the Group for the year ended 31 December 2005 has been published.

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

	Year ended 31 December			
	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS				
REVENUE	**794,418**	454,053	259,291	178,279
Cost of sales	**(308,641)**	(203,971)	(123,082)	(75,678)
Gross profit	**485,777**	250,082	136,209	102,601
Other income and gains	**3,548**	3,882	4,747	2,579
Selling and distribution costs	**(11,191)**	(7,153)	(5,740)	(4,579)
Administrative expenses	**(79,587)**	(23,109)	(17,550)	(12,952)
Other expenses	**–**	(1,240)	(1,603)	(386)
Finance costs	**(11,448)**	(8,836)	(1,074)	(1,138)
PROFIT BEFORE TAX	**387,099**	213,626	114,989	86,125
Income tax expense	**(35,998)**	(16,812)	13,647	2,136
PROFIT FOR THE YEAR	**351,101**	196,814	128,636	88,261
Profit attributable to:				
Owners of the Company	**326,061**	172,853	120,932	84,817
Minority interests	**25,040**	23,961	7,704	3,444
	351,101	196,814	128,636	88,261
ASSETS, LIABILITIES AND MINORITY INTERESTS				
TOTAL ASSETS	**1,752,793**	465,907	336,691	233,452
TOTAL LIABILITIES	**(236,775)**	(175,212)	(145,244)	(69,714)
MINORITY INTERESTS	**(19,377)**	(40,615)	(11,466)	(9,807)
	1,496,641	250,080	179,981	153,931