SHEN GUAN

Shenguan Holdings (Group) Limited

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

Annual Report 2010

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 2001-2005, 20/F
Jardine House
1 Connaught Place
Central
Hong Kong

REGISTERED OFFICE

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

HONG KONG OFFICE

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

MAINLAND OFFICE

29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

PRINCIPAL BANKERS

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

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

21 March 2011
Announcement of 2010 Final Results

12 May 2011 to 17 May 2011
(both days inclusive)
Closure of Register of Shareholders

17 May 2011
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 2010
1,661,060,000 shares

Market capitalization as at 31 December 2010
HK$16,909,590,800

Basic earnings per share for 2010
Full year RMB31 cents

Dividend per share for 2010
Full year HK16.0 cents

ENQUIRIES CONTACT

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Financial Controller

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WEBSITE

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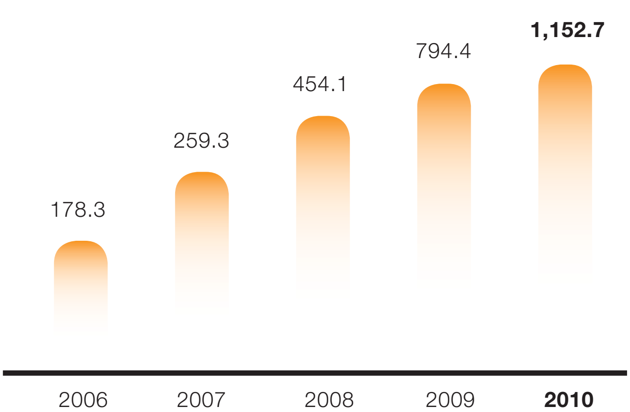
Financial Highlights

Financial and Operating Highlights for the year ended 31 December

(RMB millions, except where otherwise stated)	2010	2009	% change
Total Production Volume (million meters)	**2,908.1**	1,812.2	+60.5
Total Sales Volume (million meters)	**2,575.6**	1,778.9	+44.8
Revenue	**1,152.7**	794.4	+45.1
Profit attributable to Owners of the Company	**513.5**	326.1	+57.5
Basic Earnings Per Share (RMB cents)	**31**	25	+24.0
Dividend Per Share (HK cents)			
– Interim	**6.0**	Nil	N/A
– Final	**8.0**	4.6	+73.9
– Special	**2.0**	Nil	N/A
Cash Inflow from Operation	**386.6**	355.8	+8.7
Total Assets	**2,199.8**	1,752.8	+25.5
Inventory Turnover Day (days)	**66.5**	43.6	+22.9 days
Trade Receivables Turnover Day (days)	**34.1**	24.2	+9.9 days
Trade Payables Turnover Day (days)	**42.0**	54.4	-12.4 days

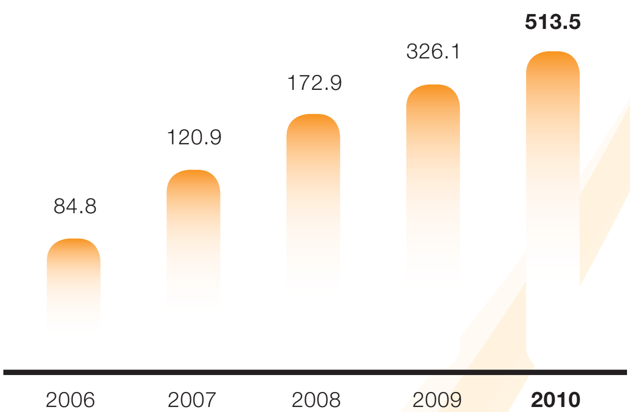
Revenue

RMB million



Profit attributable to Owners of the Company

RMB million



Chairman's Statement

Dear Shareholders,

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 2010 (the "Year" or the "Period").

The Year was a fruitful year to the Group. Thanks to the fast growing market demand for sausage products which in turn drove the demand for collagen casing products, the Group continued to see rapid increases in both its revenue and earnings. Thanks to our management team and dedicated staff for their devoted efforts, we are pleased to see enhancement in operating efficiency and achievements in product innovations. We believe improved efficiency and broadened production offerings have further strengthened our market position for driving long-term business growth.

Revenue from the sales of the Group's collagen sausage casings soared 45.1% to RMB1,152.7 million in the Year as compared to corresponding period in 2009. Profit attributable to owners of the Company was RMB513.5 million for the Year, representing a growth of 57.5% year on year. The basic earnings per share of the Group was RMB31 cents. The Board is pleased to propose the payment of a final dividend of HK8.0 cents and a special dividend of HK2.0 cents. Taking into account the interim dividend of HK6.0 cents, total dividend of the Group amounted to HK16.0 cents for the Year, or a dividend payout ratio of approximately 44.2%.

In 2010, the continuous urbanization and the rising disposable income of the consumers in the PRC contributed to the persistent rapid growth of low-temperature meat products demand on the backdrop of the favorable policy direction on food industry. As a leading manufacturer of edible collagen sausage casings in the PRC market, the Group was able to grasp this market opportunity and rolled out its expansion plan as budgeted in the prospectus of the Company for its global offering in 2009.

During the Year, the Group continued to expand its production capacity to serve the rapidly growing market demand. The Group expanded the production facilities and enhanced the machinery and equipment with proceeds from the global offering. The number of production lines has been increased to 170, four of which were originally scheduled to install in 2011 but were completed earlier than expected, and a new collagen processing plant was built. As at the end of the Year, the Group's annual production capacity reached 3,148 million meters with a utilization rate of 92.4%. The Group's production volume reached 2,908.1 million meters of sausage casings, enabling us to remain the largest manufacturer of edible collagen sausage casings in the PRC.

To ensure the best quality of our products, the Group also invested an amount of approximately RMB4.5 million for the establishment of an examination center for the assessment of raw materials and finished goods with advanced technology. The examination center was equipped with the latest technology and is run by a team of high caliber professionals to ensure the raw materials that the Group uses and the finished products are of highest quality. The examination center has entered into trial operation stage at the end of 2010.

In view of consumers' demand for increasing variety of products, the Group continued to explore, with its customers, product innovation. In October 2010, the Group reported a new breakthrough with a Muslim certificate obtained for the production of Muslim sausage casings, a new collagen sausage casing product tailor made for Muslims. This is the first product that the Group manufactured specially for Muslims, enabling its customers to establish foothold in this emerging market with huge potential.

On the backdrop of improving economic growth in the PRC and rising food demand, the Group continued to seek ways to enhance its competitive strengths to defend against intensified market competition and growing cost pressure amid rising threats of inflation and strengthening Renminbi against other currencies.

It is expected that inflation in the PRC shall persist in 2011, resulting in an increase in production costs which may post challenge to the Group's business. In light of this rising price level, the Group has come up with a series of measures to counteract the adverse impact. The Group plans to enhance efficiency of existing production lines to increase production capacity catering for the increasing demand. The Group also laid out plans to optimize its energy saving facilities in the Group's production plants as a cost-saving measure. In addition, the Group will leverage on its strong innovation capability to develop more new products with higher selling price in a more aggressive manner to maintain its profitability.

The Group highly values its relationship with customers as one of its key competitive strengths and a great asset of the Company. During the Period, the Group continued to dedicate its effort in co-developing new products with its customers in answer to their needs. By engaging in cooperation since the early R&D stages, the Group has successfully developed a good and long-term relationship with its customers over the years. The Group also follows up closely to market response and customers' feedbacks on new products after their launch. These measures enable the Group to reinforce customer loyalty and strengthen our partnership with customers.

Given the backdrop of rapid economic growth in the PRC economy and the continuous increase in the demand for processed meat products, the Group remains optimistic towards the future of the collagen sausage casing industry. Riding on its diversified and comprehensive product range, proven quality and sound business foundation, the Group is well-poised to continue achieving outstanding results in the future. The Group expects that the demand for collagen sausage casing will remain strong in 2011.

Looking ahead, the Group will continue to optimize its operating efficiency, further strengthen its customer relationships and R&D capability, aiming to strengthen its leadership in the edible collagen casings market. Dedicated to its core value of delivering best quality of products, the Group plans to invest around RMB400 million for the expansion of production facilities, product development, improvement of production techniques, automation of monitoring process, improvement of staff quality and internal control to achieve highest product quality.

In 2011, the Group plans to increase 54 new production lines, four of which were already completed earlier than expectation by the end of 2010, and supporting facilities in response to the increased demand brought about by the enriched product mix and allow the Group to carry out regular maintenance work on current production lines. The Group will continuously expand the scale of its collagen production base located at Wanxiu Sifuchong to support the collagen need.

To capture new business opportunities in the Muslim market, the Group plans to further expand the production and sale of Muslim sausage casing in 2011 by gradually allocating a total of 26 existing production lines by the end of 2011 especially for the production of Muslim sausage casings. Apart from the production of Muslim sausage casings, the Group will also devote resources in the development of several new products in addition to the production of large diametrical sausage casings.

The Group aims at enhancing product quality and management efficiency through the establishment of a national-standard technology and examination centre for the testing of raw materials and products, as well as the digitalization of management system to enhance accuracy and stability.

I would like to take this opportunity to express my sincere gratitude towards the hard work of the Group's staff that has laid the strong foundation for the Group's success. My gratitude also goes to our fellow shareholders who have shown continuous support to the Company. The Group will endeavour to maintain market leadership and actively seek new potential business opportunities to reward the shareholders with prolific returns.

Zhou Yaxian
Chairman and President

Hong Kong, 21 March 2011

Management Discussion and Analysis

BUSINESS AND OPERATIONAL REVIEW

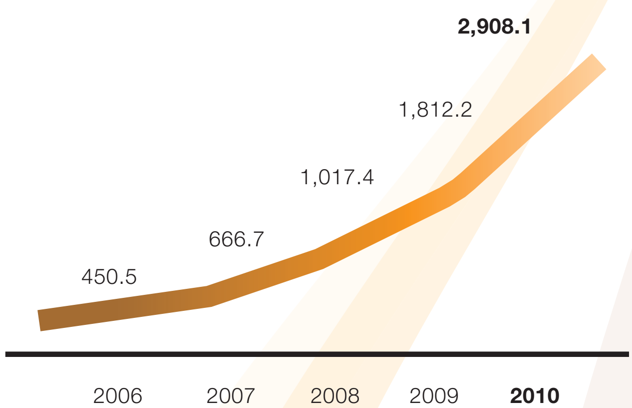
Fiscal and monetary stimulus, coupled with recovery in world trade, drove economic expansion in the PRC. Sustaining economic growth fuelled the increase in household income in both urban and rural areas. According to the preliminary figures of the National Bureau of Statistics, the GDP of the PRC in 2010 was approximately RMB39,798.3 billion, growing approximately 10.3% from a year ago. The capita disposable income of urban residents was RMB19,109 and the per capita net income of rural residents was RMB5,919. After eliminating the pricing factor, the growth rates were 7.8% and 10.9% in real terms, respectively.

Against the backdrop of rapid economic growth of the country, ongoing urbanization and rising purchasing power, demand for processed meat products continued to increase. Change in lifestyle of Chinese citizens also boosts processed meat consumption in the country, which is currently well below the consumption in developed countries. This creates immense potential for the collagen sausage casing market in China.

Shenguan, as the largest edible collagen sausage casing manufacturer in China, is poised to benefit from the immense potential of processed meat products market in China. For the Year, revenue of the Group surged 45.1% to RMB1,152.7 million from RMB794.4 million a year ago. Profit attributable to owners of the Company jumped 57.5% to RMB513.5 million in the Year from RMB326.1 million in 2009.

Production volume

(million meters)



The Board proposed a final dividend for the Year of HK8.0 cents per share (2009: HK4.6 cents) and a special dividend for the Year of HK2.0 cents per share (2009: Nil). For reference purpose, the closing exchange rate for Renminbi to Hong Kong Dollars as announced by the People's Bank of China at the date of this report is RMB0.8415 to HK$1.00. Accordingly, the aggregate amount of final and special dividends per share equivalent to RMB8.4150 cents, together with the interim dividend of HK6.0 cents per share (equivalent to RMB5.2468 cents as stated in the interim results announcement dated 30 August 2010), represents a dividend payout ratio of approximately 44.2%.

PRODUCT MIX

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which are used for western-style sausages. In view of the rising demand for sausage products and the widening diversity of ingredients and flavors in the Chinese sausage market, the market demand for high quality collagen sausage casings continued to grow rapidly.

During the Year, western-style collagen sausage casing products remained a major source of revenue of the Group. The sales of western-style collagen sausage casing products reached RMB1,080.2 million for the Year (2009: RMB722.9 million), representing a growth of 49.4% over the previous year and accounted for 93.7% of the total revenue of the Group (2009: 91.0%). The sales of Chinese-style collagen sausage casings was approximately RMB72.5 million (2009: RMB71.5 million), increasing moderately by 1.3% over the previous year, and represented approximately 6.3% of the total revenue (2009: 9.0%).

To optimize the product mix and tap new market opportunities, the Group continued to invest in new products. During the Year, the Group has obtained the Muslim certificate in October 2010 for the production of Muslim sausage casings, a new collagen sausage casing product tailor-made for Muslims. This new type of collagen sausage casings, which is currently sold locally in China market, is expected to be launched for sale to the overseas markets gradually.

During the Year, the Group offered different sizes of collagen sausage casing products, with diameters ranging from 16-50mm. In light of the increasing demand for large-sized diametrical casings, the Group had allocated 4 production lines exclusively for the production of large diametrical casings by the end of the Year. During the Year, about 77.2% of the Group's sales were casings with diameters ranging from 16-21mm.

Mainland China is the major market of the Group's products with over 96% 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, Southeast Asia, the United States and Europe.

SUPPLY OF RAW MATERIALS

The core raw material for collagen sausage casing production is cattle's inner skin. The supply of cattle inner skin has remained stable in the past few years. With the good relationship established between the Group and the suppliers over the years, the Group expects to secure a stable supply of cattle's inner skins in the future. During the Year, the cost of raw materials was RMB199.0 million, (2009: RMB128.6 million) accounting for 43.8% of the Group's total cost of sales.

PRODUCTION CAPACITY

In light of the rapidly growing demand for collagen sausage casings, the Group invested in increasing its production capacity during the Year.

The Group currently owns two production plants at Wuzhou with the number of production lines reaching 170 as at 31 December 2010, four of which were originally scheduled to be installed in 2011, but the installation was completed in 2010 which was earlier than expected. The weighted average capacity calculated by the operating time of the production lines was 3,148 million meters. The actual production volume was approximately 2,908.1 million meters.

During the Year, the Group had finished the improvement of energy-saving technologies of existing 46 production lines and successfully upgraded 4 production lines to produce large-diametrical sausage casings with high selling prices. The Group will also set aside 26 production lines gradually for the production of Muslim sausage casings to cater for the large demand in the overseas countries.

The Group's collagen processing plant capacity was greatly enhanced by the commencement of production of the new Sifu production base. The site formation work was completed with the land area of approximately 350,000 sq. m. in the Sifu production base with a new production plant and freeze storehouse of 40,000 sq. m. built. During the Year, the Group moved part of its collagen processing facilities to the new collagen processing plant from the old Fudian production base, which greatly strengthened the Group's collagen processing efficiency and improved the quality of the collagen processed. In addition, the Group enhanced production lines in the old Fudian production base and added new automotive facilities to improve production efficiency.

TECHNOLOGICAL RESEARCH AND DEVELOPMENT

The Group considers research and development (R&D) of new technologies and products as one of its competitive strengths. The Group provides tailor-made collagen sausage casing products to fulfill customer needs, and is involved in the early stages of the R&D process for new sausage products. The Group believes that strong R&D is the core of its success. Patented technologies are the key to differentiate the Group from market peers and raise entry barriers for competitors to enter the market. The Group will continue optimize its production technology in order to reduce the production costs. During the Year, the R&D expenses amounted to RMB87.1 million (2009: RMB23.4 million).

As at 31 December 2010, the Group had registered 2 trademarks and 9 patents with the State Intellectual Property Office, with another 20 patents being accepted for application and pending for approval.

QUALITY CONTROL

In order to produce high quality products to its customers, Shenguan undertakes strict quality control over every single production process. During the Period, the Group had passed the ISO9001: 2000 Quality Management System and HACCP Standards annual review for its quality control system, and has obtained FDA registration for the export of products to the United States. In addition, all of its products have 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 its customers.

In response to the establishment of national standard corporate examination center by the PRC government, the Group also invested an amount of approximately RMB4.5 million for the establishment of an examination center for the assessment of raw materials and finished goods. The examination center was equipped with the latest technology and has been run by a team of high caliber professionals to ensure the raw materials that the Group uses and the finished products are of highest quality. The examination center has entered trial operation stage at the end of 2010.

CUSTOMER RELATIONSHIP

The Group provides tailor-made (in different types and sizes) collagen sausage casing products to fulfill customer needs, and is involved in the early stages of the R&D process for new sausage products. Over the years, the Group has established a long-term relationship with the leading manufacturers of processed meat products and sausages in the PRC. During the Year, the Group received orders from various overseas markets, including South America, Southeast Asia, the United States and Europe.

During the Year, the Group continued to provide a range 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), Zhongpin Inc. (河南眾品食業股份有限公司), Beijing Shunxiu Agriculture Co., Ltd. (北京順鑫農業股份有限公司), China Agri-Industries Holdings Limited (中國糧油控股有限公司), China Yurun Food Group Limited (中國雨潤食品集團有限公司), People's Food Holdings Limited (大眾食品控股有限公司), Fuijian Sunner Development Co., Ltd. (福建聖農發展股份有限公司), Shangdong Delisi Food Co., Ltd. (山東得利斯食品股份有限公司), China Kangda Food Co., Ltd. (中國康太食品股份有限公司), 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), respectively.

ENERGY SAVING

The Group adopted and optimized the heat energy technology and greatly reduced the use of energy. The Group achieved a satisfactory result in the trial run of replacing steam boilers by the new heat energy technology in the drying process in 2009. Riding on this initial success, the Group carried out third generation improvement on heat energy technology and applied it to all production lines, demonstrating a more significant energy saving result. The use of coal was reduced significantly in 2010 and achieved cost savings. The new energy saving technology substituted coal with electricity, which the Group believed would reduce the emission of waste gas and achieve a pleasing result in environmental protection.

FINANCIAL ANALYSIS

Revenue

The Group's revenue increased by 45.1% from RMB794.4 million in 2009 to RMB1,152.7 million in 2010, driven by the significant growth in the sales of Western-style collagen sausage casings. During the Year, the aggregate volume of sausage casings sold by the Group was 2.58 billion meters.

Sales of Western-style collagen sausage casings increased by 49.4% from RMB722.9 million in 2009 to RMB1,080.2 million in 2010. 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; (ii) an increase in overall market demand for these products in the PRC resulting from rapid urbanization and continuous economic development; and (iii) the Group's expansion of its scale of production in response to the rapid increase of market demand.

Cost of sales

Cost of sales increased by 47.3% from RMB308.6 million in 2009 to RMB454.6 million in 2010. The increase was generally in line with the increase in sales over the same period and was driven by the following factors: (i) the cost of raw materials increased by RMB70.4 million due to increased production volume; (ii) water, electricity and coal expenses increased by RMB25.1 million; and (iii) the direct labor expenses increased by RMB31.4 million, as the Group hired more workers and annually reviewed their remuneration to support its operations. During the Year, the aggregate amount of sausage casings produced by the Group was 2.91 billion meters and the Group has maintained an equipment utilization rate of 92.4%.

Gross profit

Gross profit increased by 43.7% from RMB485.8 million in 2009 to RMB698.1 million in 2010, while the gross profit margin remained stable and that was mainly driven by the efficient use of energy by the Group during the Year. Following the improvements in production and energy saving technologies, the Group achieved cost savings in raw material used and water, electricity and coal expenses which offset the increase in labor cost during the Year. In addition, the Group was able to protect the environment more efficiently through energy saving and emission reduction.

Other income and gains

Other income and gains increased significantly from RMB3.5 million in 2009 to RMB49.1 million in 2010, which was mainly attributable to the increase in bank interest income and foreign exchange gain.

Selling and distribution costs

Selling and distribution costs increased by 30.4% from RMB11.2 million in 2009 to RMB14.6 million in 2010. Selling and distribution costs accounted for 1.4% of the revenue in 2009 and 1.3% of the revenue in 2010. The decrease in selling and distribution costs as a percentage of sales reflected the Group's enhancement in economies of scale.

Administrative expenses

Administrative expenses decreased by 14.5% from RMB79.6 million in 2009 to RMB68.0 million in 2010. The decrease in administrative expenses was mainly due to the fact that the legal and professional fees incurred during 2009 of RMB23.2 million for the preparation of the Company's listing in October 2009, did not re-occur during the Year. However, part of such decrease was offset by the increase in staff salary and expense in benefits, which was principally a result of (i) an increase in headcount of administrative staff; and (ii) the payments of performance-based bonuses to some management personnel which were based on the profitability of 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.

Finance costs

Finance costs decreased from a net charge of RMB11.4 million in 2009 to a net gain of RMB0.3 million in 2010. The decrease was due to the fact that part of the proceeds from the listing of the Company and cash generated from operations were used to repay the bank borrowings in 2009 and that the borrowing level of the Group was maintained at a low level during the Year. Interest on bank loans incurred were offset by the government grants received during the Year.

Income tax expenses

Income tax expenses were RMB134.5 million in 2010, as compared to RMB36.0 million in 2009. The Company's major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its presence in Western China and was also entitled to a 50% Corporate Income Tax ("CIT") exemption under CIT holiday of "two-year exemption and three-year half deduction" for 2009, which resulted that the applicable tax rate for Wuzhou Shenguan was 7.5% for that year. The preferential tax period with 50% reduction on the CIT ended by the end of 2009 and therefore, the applicable tax rate of Wuzhou Shenguan was adjusted to 15% for 2010.

The Group's effective tax rates were charged at 9.3% and 20.2% to the profit before tax in 2009 and 2010, respectively. The increase in effective tax rates as compared to the applicable tax rates was due to the withholding tax levied on dividends declared by Wuzhou Shenguan to its holding companies established in Hong Kong. Because of the special dividend of HK2.0 cents per share, the Group incurred an additional withholding tax of approximately RMB2.9 million.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests decreased by 32.7% from RMB25.0 million in 2009 to RMB16.8 million in 2010. Notwithstanding an increase in profit after tax, the decrease was due to a decrease in percentage of beneficial interests of non-controlling 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 57.5% from RMB326.1 million in 2009 to RMB513.5 million in 2010. The Group's net profit margin attributable to owners of the Company increased from 41.0% in 2009 to 44.5% in 2010.

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 2010, the cash and cash equivalents amounted to RMB787.7 million, representing a decrease of RMB240.1 million from the end of 2009. Among the cash and bank deposits balance, 97.9% were denominated in Renminbi and the remaining 2.1% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2010, the total liabilities of the Group amounted to RMB335.2 million (31 December 2009: RMB236.8 million), of which RMB140.0 million was long-term bank borrowings due in the third to fifth years, inclusive. As at 31 December 2010, the Group had no short-term bank borrowings due within one year. All of the Group's bank borrowings were subject to floating interest rates currently ranging from 5.76% to 6.03% per annum and were denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB647.8 million as at 31 December 2010, together with held-to-maturity investments of RMB202.0 million. The debt-to-equity ratio was 7.5% as at 31 December 2010 (31 December 2009: 4.9%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

In 2010, RMB386.6 million was generated from the operating activities, while the net amounts spent on investing activities and financing activities were RMB980.9 million and RMB96.9 million, respectively. Net cash outflows from financing activities were mainly related to the distribution of a final dividend for 2009 and an interim dividend for the six months ended 30 June 2010 by the Company and bank loans borrowed and repaid. Net cash outflows from investing activities were mainly related to the expansion of production facilities, purchase of property, plant and equipment, prepayment in respect of land use rights, and purchase of RMB200 million one-year term certificate treasury bonds issued by the Ministry of Finance of the PRC, 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 RMB535.5 million as at 31 December 2010.

Exchange risk exposure

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

Capital expenditure

The cash outflow for the capital expenditure used in investing activities in 2010 amounted to RMB328.7 million and capital commitments as at 31 December 2010 amounted to RMB443.7 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production facilities.

For 2011, the Company has budgeted to spend around RMB400 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 and the upgrading of production technology.

Pledge of assets

As at 31 December 2010, 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 of Hong Kong Limited (the "Stock Exchange"). Net proceeds received by the Company from the initial public offering were approximately RMB1,190.6 million.

As at 31 December 2010, 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 RMB393.4 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 "Prospectus").

The unutilized proceeds have been placed with licensed banks in Hong Kong and the PRC as interest bearing deposits as at 31 December 2010.

Contingent liabilities

As at 31 December 2010 and up to the date of this report, the Group was not aware of any material contingent liabilities.

Acquisitions, disposals and significant investment

On 22 July 2010 and 14 September 2010, the Group (through Wuzhou Shenguan) had acquired the one-year term certificate treasury bonds issued by the Ministry of Finance of the PRC in the aggregate principal amount of RMB110,733,200 and RMB89,266,800, respectively. The interest rate was 2.6% per annum. For details, please refer to the announcements of the Company dated 22 July 2010 and 14 September 2010, respectively.

Saved as disclosed above, during the Period, there was no material acquisition, disposal or investment by the Group.

Human resources

As at 31 December 2010, the Group had 3,695 employees with a total remuneration of RMB111.3 million paid during the Year. 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 remains strongly optimistic towards the vast potentials of the collagen sausage casing market in the PRC. Increasing income and changing lifestyle of the Chinese citizens will continue to drive the robust demand for processed meat products and substitution for natural sausage casings. To capture the growing business opportunities, the Group will endeavor to sustain its leading market position in the collagen sausage casings industry with the following key development plans:

(i) In 2011, the Group plans to add 54 production lines, increasing the total number of production lines to 220, in which four of them were installed by the end of 2010 which was earlier than scheduled. The expected annual production capacity for 2011 is approximately 4.0 to 4.2 billion meters and production volume is expected to be 3.6 to 3.8 billion meters. This will help the Group to launch new product types to satisfy market needs while enabling the Group to execute necessary maintenance of existing production lines. To cater for the need of production lines expansion, the Group will further expand the production capacity of its new collagen processing plant.

(ii) The Group will continue to diversify its product mix and expand the production of Muslim sausage casings by gradually setting aside a total of 26 production lines. After the reallocation of production lines completed, the annualized production capacity of Muslim sausage casings will be able to reach 500 million meters. The Group aims to enhance its market competitiveness by enriching its product portfolio. After the introduction of Muslim sausage casings in October 2010, the Group decided to expand its overseas sales, aiming to capture the rising demand from the overseas market and expanding its business into the Muslim society.

(iii) In addition, the Group will continue to allocate resources in the integration and optimization of internal management effectiveness, as well as to improve management and operation efficiency in order to achieve economies of scale and better prepare for future challenges. The Group is determined to maintain its leading brand recognition and create better returns to its shareholders, staff and customers for their continuous support.

EVENT AFTER THE PERIOD

On 4 March 2011 and 11 March 2011, the Group (through Wuzhou Shenguan) acquired the 3.45% one-year term certificate treasury bonds issued by the Ministry of Finance of the PRC in the aggregate principle amount of RMB110,000,000 and RMB40,000,000, respectively. For details of the treasury bonds acquisitions, please refer to the announcements of the Company dated 4 March 2011 and 13 March 2011, respectively.

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") for the Year, save for the exception explained in this report under the paragraphs headed "Chairman and 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 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

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. 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 annual 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. During the Year, the Board held 10 meetings and the individual attendance of the Directors at the Board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	10/10
Ms. Cai Yueqing	10/10
Mr. Shi Guicheng	10/10
Mr. Ru Xiquan	10/10
Mr. Low Jee Keong	10/10
Mr. Tsui Yung Kwok	9/10
Mr. Meng Qinguo	10/10
Mr. Yang Xiaohu	8/10

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. The Company will make timely announcement if the chief executive officer has been appointed.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors and non-executive Directors 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 Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu 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 during the Year. Moreover, no incident of non-compliance of the Model Code by the senior management 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 during the Year.

SUPPLY OF AND ACCESS TO INFORMATION

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

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

AUDIT COMMITTEE

The Company established an Audit Committee 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.

During the Year, the Audit Committee had reviewed the 2009 final results, the 2010 interim results of the Group and the Group's internal controls for the Year. The Group's final results for the Year had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and complies with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

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

	Attendance/ Meeting held
Mr. Tsui Yung Kwok *(Chairman)*	3/3
Mr. Meng Qinguo	3/3
Mr. Yang Xiaohu	2/3

AUDITORS' REMUNERATION

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

Type of services	**Fee paid/payable** *RMB'000*
Non-audit services	1,725
Audit services	1,828
	3,553

NOMINATION COMMITTEE

The Company established a 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 Yaxian, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Ms. Zhou Yaxian is the chairman of the Nomination Committee.

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

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

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

At the meeting, the Nomination Committee reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and other related matters of the Company.

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 Yaxian, an executive Director and two independent non-executive Directors, namely Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Meng Qinguo is the chairman of the Remuneration Committee.

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

The 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 held 3 meetings during the Year. Details of the attendance of the Remuneration Committee meetings are as follows:

	Attendance/ Meeting held
Mr. Meng Qinguo *(Chairman)*	3/3
Ms. Zhou Yaxian	3/3
Mr. Yang Xiaohu	2/3

At the meetings, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages for the years 2009 and 2010 and performance of the Directors for 2009.

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 2010. The auditors to the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2010. 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 forthcoming annual general meeting of the Company will be held on 17 May 2011.

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 51, Ms. Zhou is a founder of the Group and a director of all of the subsidiaries of the Company. She is primarily responsible for the Group's overall strategic planning, technology and business management. Ms. Zhou has nearly 31 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－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

Mr. Shi Guicheng
Vice President

Mr. Ru Xiquan
Vice President

Aged 55, Ms. Cai is primarily responsible for the Group's production management. She has nearly 18 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.

Aged 47, 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 18 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.

Aged 48, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 20 years of experience in the collagen sausage casing industry. Mr. Ru graduated from Guangxi Central Radio and TV University (廣西廣播電視大學) and attained the Professional Qualification Graduation Certificate in Finance and Accounting in July 1989. He obtained the certificate of accounting professional issued by the Wuzhou Finance Bureau in November 2001. He also completed the course of Economic Management held by The Central Party School (中共中央黨校) in 2002. Mr. Ru is an accountant and joined Wuzhou Protein Factory as the Head of the Finance and Accounting Department in 1990. He has been the Chief Accountant of Wuzhou Shenguan since 2004, responsible for matters relating to accounting and finance. He was appointed as a Director on 19 September 2009.

NON-EXECUTIVE DIRECTOR

Mr. Low Jee Keong

Aged 45, 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 18 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 42, 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 17 years of experience in accounting and finance. He held a senior position in an international accounting firm in Hong Kong from 1994 to 2003 and was the Chief Financial Officer of Qin Jia Yuan Media Services Company Limited (Hong Kong Stock Code: 02366), the shares of which are listed on the Stock Exchange, from 2003-2004. Mr. Tsui has been the Chief Financial Officer and the Company Secretary of Ju Teng International Holdings Limited (Hong Kong Stock Code: 03336), the shares of which are listed on the Stock Exchange, since 2004. Mr. Tsui became an Executive Director of Ju Teng International Holdings Limited in June 2005. Mr. Tsui has also served as an independent non-executive director of SITC International Holdings Company Limited (Hong Kong Stock Code: 01308), the shares of which are listed on the Stock Exchange, since September 2010. 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 53, 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 36, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 12 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

Mr. Wen Jinpei
Vice President

Mr. Ng Yuk Yeung
Financial Controller

Aged 42, Mr. Mo is primarily responsible for the Group's product and technology developments. He has long been engaged in product development and has nearly 18 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.

Aged 49, Mr. Wen is primarily responsible for the Group's human resources, logistics, the merchandising and tendering of projects, marketing and development plans. Mr. Wen graduated with a bachelor degree in Engineering from Guangdong Ocean University in July 1982 and was named Senior Engineer in technological engineering in 1996. He was responsible for plan control, economy management, state-owned and collective assets management as well as technology management. Mr. Wen was the Deputy Officer of Wuzhou Planning Committee (梧州市計劃委員會), Deputy Officer of Wuzhou City Collective Industry Association (梧州市城鎮集體工業聯社), Deputy Chief of Wuzhou Medicinal Chemistry Bureau (梧州市醫藥化學工業局), Deputy Officer of Wuzhou Economic and Commerce Committee (梧州市經濟貿易委員會), Deputy Officer of Wuzhou People's Government Asset Management Committee (梧州市人民政府國有資產監督管理委員會) and Deputy Chief of Wuzhou Technology Bureau (梧州市科學技術局) from 1995 to 2010. He has been the Vice President of Wuzhou Shenguan since October 2010.

Aged 37, 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 15 years of experience in auditing and financial management, which was mostly gained from positions in one of the international firms of certified public accountants from 1996 to 1999 and from 2001 to 2002, and in China Resources Enterprise Limited (Hong Kong Stock Code: 00291), the shares of which are listed on the Stock Exchange, from 2002 to 2007. Mr. Ng attained his Bachelor's degree in Computer Science from the University of Hong Kong in November 1995 and is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a CFA Charter holder. Mr. Ng is also the Company Secretary of the Company.

Report of the Directors

The Directors present their report and the audited financial statements for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 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 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 99.

An interim dividend of HK6.0 cents per ordinary share was paid on 30 September 2010. The directors recommend the payment of a final dividend of HK8.0 cents per ordinary share in respect of the Year and a special dividend of HK2.0 cents per ordinary share to shareholders on the register of members on 17 May 2011. 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 27 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 12 May 2011 to Tuesday, 17 May 2011 (both days inclusive), during such period no transfer of shares will be registered. To ensure the entitlement to the final dividend and the special dividend, which will be resolved and voted at the forthcoming annual general meeting of the Company, and be 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 Wednesday, 11 May 2011.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and the prospectus of the Company dated 30 September 2009, is set out on page 100. 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 28 and 29 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

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

RESERVES

For the Year, the profit attributable to owners of the Company amounted to RMB513,458,000. 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 2010, the Company had distributable reserves amounting to RMB1,387,041,000, of which RMB113,079,000 has been proposed as a final dividend and RMB27,955,000 as special 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 30 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 RMB5,667,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 51.3% of the total sales for the Year and sales to the largest customer included therein amounted to 40.5%. Purchases from the Group's five largest suppliers accounted for less than 30% of total purchases for the Year.

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

EMOLUMENT POLICY

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

DIRECTORS

The Directors during the Year were:

Executive Directors:

Ms. Zhou Yaxian
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 84 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The non-executive Director and independent non-executive Directors are appointed for periods of three years and two years, respectively.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors 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 and non-executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing on 13 October 2009, at which the shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (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 the 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' REMUNERATION

The Directors' fees are subject to shareholders' approval at the general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the financial statements and in the section headed "Continuing connected transactions" in this report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group 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 2010, 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 Director	Capacity/Nature	No. of Shares	Approximate percentage of issued share capital of the Company
Ms. Zhou Yaxian ("Ms. Zhou")	Interest of controlled corporation *(Note 2)*	1,064,784,000(L)	64.10
Mr. Low Jee Keong ("Mr. Low")	Interest of controlled corporation *(Note 5)*	39,468,000(L)	2.38
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	200,000(L)	0.01
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	200,000(L)	0.01
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	200,000(L)	0.01

2. INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES

Name of Director	Capacity/Nature	No. of underlying Shares	Approximate percentage of issued share capital of the Company
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	800,000(L)	0.05
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	800,000(L)	0.05
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	800,000(L)	0.05

3. LONG POSITION IN THE ORDINARY SHARES OF ASSOCIATED CORPORATIONS

Name of Director	Name of the associated corporation	Capacity/Nature	No. of shares held/amount contributed to registered capital	Approximate percentage of interest in the 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 2010, 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 2010, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Capacity/Nature	No. of shares	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	940,764,000(L)	56.64
Xian Sheng	Beneficial owner	124,020,000(L)	7.47
Glories Site	Interest of controlled Corporation *(Note 2)*	940,764,000(L)	56.64
Hong Kong Shenguan	Interest of controlled Corporation *(Note 3)*	1,064,784,000(L)	64.10
FMR LLC	Investment manager	83,394,000(L)	5.02
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse *(Note 4)*	1,064,784,000(L)	64.10

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 2010, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

COMPETING INTERESTS

None of the Directors, and 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 2010, 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 158,940,000 Shares which represented approximately 9.57% 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	Number of share options: At 1 January 2010	Granted during the Year	Cancelled/ lapsed during the Year	Exercised during the Year#	At 31 December 2010	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	–	–	(200,000)	800,000					
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	–	–	(200,000)	800,000					
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	–	–	(200,000)	800,000					
	3,000,000	–	–	(600,000)	2,400,000					
Other employees										
In aggregate	600,000	–	–	(460,000)	140,000	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	–	–	(460,000)	2,540,000					
	6,000,000	–	–	(1,060,000)	4,940,000					

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

All the options were exercised on 28 October 2010. The closing price of the Shares immediately before the date of exercise of the options i.e. 27 October 2010 was HK$10.12.

* *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 weighted average closing price of the Company's share immediately before the exercise date of the share options was HK$10.13 per share.*

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

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

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 RMB15,870,000 and the annual cap set in the said agreement for the Year is RMB18,000,000.

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 Director and a controlling shareholder of the Company. Wuzhou Junye Printing Material is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

(ii) Transactions with Execltech

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 RMB4,359,000 and the annual cap set in the said agreement for the Year is RMB5,800,000.

Exceltech is a sole proprietorship registered in Malaysia and is owned by Mr. Low, 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 RMB281,000 and the annual cap set in the said agreement for the Year is RMB4,600,000.

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 and the announcement issued by the Company on 21 June 2010.

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

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

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 34 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.

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. The Company has complied with the code provisions of the Code during the Year, save for the exceptions explained in the Corporate Governance Report in the annual 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

On 4 March 2011 and 11 March 2011, the Group (through Wuzhou Shenguan) acquired the 3.45% one-year term certificate treasury bonds issued by the Ministry of Finance of the PRC in the aggregate principle amount of RMB110,000,000 and RMB40,000,000, respectively. The treasury bonds acquisitions constituted discloseable transactions for the Company. For details, please refer to the announcements of the Company dated 4 March 2011 and 13 March 2011.

AUDITORS

The financial statements for the Year 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 and President

Hong Kong
21 March 2011

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 consolidated financial statements of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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

21 March 2011

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	4	**1,152,689**	794,418
Cost of sales		**(454,616)**	(308,641)
Gross profit		**698,073**	485,777
Other income and gains	4	**49,118**	3,548
Selling and distribution costs		**(14,595)**	(11,191)
Administrative expenses		**(68,026)**	(79,587)
Finance costs, net	5	**252**	(11,448)
PROFIT BEFORE TAX	6	**664,822**	387,099
Income tax expense	9	**(134,520)**	(35,998)
PROFIT FOR THE YEAR		**530,302**	351,101
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations		**(26,762)**	(111)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(26,762)**	(111)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**503,540**	350,990
Profit attributable to:			
Owners of the Company	10	**513,458**	326,061
Non-controlling interests		**16,844**	25,040
		530,302	351,101
Total comprehensive income attributable to:			
Owners of the Company	10	**486,696**	325,950
Non-controlling interests		**16,844**	25,040
		503,540	350,990
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		
Basic (RMB cents per share)		**31**	25
Diluted (RMB cents per share)		**31**	25

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

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**722,421**	470,477
Prepaid land lease payments	*15*	**107,732**	31,786
Patent	*16*	**1,144**	2,003
Available-for-sale investment	*18*	**200**	–
Deferred tax assets	*19*	**8,790**	13,354
Long term prepayments		**16,343**	43,520
Total non-current assets		**856,630**	561,140
CURRENT ASSETS			
Inventories	*20*	**118,849**	46,862
Trade and bills receivables	*21*	**137,210**	77,996
Prepayments, deposits and other receivables	*22*	**97,364**	37,765
Tax recoverable		**–**	1,168
Held-to-maturity investments	*23*	**201,965**	–
Cash and cash equivalents	*24*	**787,736**	1,027,862
Total current assets		**1,343,124**	1,191,653
CURRENT LIABILITIES			
Trade payables	*25*	**26,357**	24,227
Other payables and accruals	*26*	**119,631**	105,578
Tax payable		**31,800**	19,808
Deferred income		**3,305**	–
Total current liabilities		**181,093**	149,613
NET CURRENT ASSETS		**1,162,031**	1,042,040
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,018,661**	1,603,180
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*27*	**140,000**	74,900
Deferred income		**14,061**	11,171
Deferred tax liabilities	*19*	**–**	1,091
Total non-current liabilities		**154,061**	87,162
Net assets		**1,864,600**	1,516,018

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*28*	**14,633**	14,624
Reserves	*30(a)*	**1,823,046**	1,482,017
		1,837,679	1,496,641
Non-controlling interests		**26,921**	19,377
Total equity		**1,864,600**	1,516,018

Zhou Yaxian
Director

Ru Xiquan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the Company											
	Notes	Issued capital RMB'000	Share premium account* RMB'000	Contributed surplus* RMB'000 (note 30(a)(i))	Reserve funds* RMB'000 (note 30(a)(ii))	Capital reserves* RMB'000	Employee share-based compensation reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserves* RMB'000 (note 30(a)(iii))	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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 for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(111)	–	–	(111)	–	(111)
Total comprehensive income for the year		–	–	–	–	–	–	(111)	–	326,061	325,950	25,040	350,990
Acquisition of non-controlling 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 non-controlling 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		9	–	(9)	–	–	–	–	–	–	–	–	–
Capital contribution from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	11,271	11,271
Capitalisation issue	28(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	28(b)	3,524	1,088,891	–	–	–	–	–	–	–	1,092,415	–	1,092,415
Over-allotment of shares	28(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 and at 1 January 2010		14,624	1,176,002	59	56,722	4,758	842	(111)	65,334	178,411	1,496,641	19,377	1,516,018

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the Company											
	Notes	Issued capital	Share premium account*	Contributed surplus*	Reserve funds*	Capital reserves*	Employee share-based compensation reserve*	Exchange fluctuation reserve*	Other reserves*	Retained profits*	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(note 30(a)(i))	(note 30(a)(ii))				(note 30(a)(iii))				
At 31 December 2009 and at 1 January 2010		14,624	1,176,002	59	56,722	4,758	842	(111)	65,334	178,411	1,496,641	19,377	1,516,018
Profit for the year		–	–	–	–	–	–	–	–	513,458	513,458	16,844	530,302
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(26,762)	–	–	(26,762)	–	(26,762)
Total comprehensive income for the year		–	–	–	–	–	–	(26,762)	–	513,458	486,696	16,844	503,540
Issue of shares in connection with the exercise of share options	28(d)	9	5,476	–	–	–	(1,491)	–	–	–	3,994	–	3,994
Equity-settled share option arrangement		–	–	–	–	–	3,484	–	–	–	3,484	–	3,484
Transfer from retained profits		–	–	–	56,120	–	–	–	–	(56,120)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(9,300)	(9,300)
Final 2009 dividend		–	–	–	–	–	–	–	–	(67,295)	(67,295)	–	(67,295)
Interim 2010 dividend	11	–	–	–	–	–	–	–	–	(85,841)	(85,841)	–	(85,841)
At 31 December 2010		14,633	1,181,478	59	112,842	4,758	2,835	(26,873)	65,334	482,613	1,837,679	26,921	1,864,600

* *These reserve accounts comprise the consolidated reserves of RMB1,823,046,000 (2009: RMB1,482,017,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		664,822	387,099
Adjustments for:			
Interest on bank loans		7,443	14,367
Bank interest income		(14,048)	(1,679)
Interest income from held-to-maturity investments		(1,965)	–
Loss on disposal of items of property, plant and equipment		691	2,204
Depreciation		31,808	19,998
Amortisation of prepaid land lease payments		1,216	642
Amortisation of patent		859	858
Government grants released		(11,839)	(4,786)
Equity-settled share option expense	29	3,484	842
Exchange gain on intercompany loans		(25,834)	–
		656,637	419,545
Increase in inventories		(71,987)	(20,045)
Increase in trade and bills receivables		(59,214)	(50,604)
Increase in prepayments, deposits and other receivables		(52,397)	(24,306)
Increase in trade payables		2,130	6,842
Increase in other payables and accruals		4,500	39,283
Receipt of government grants		18,034	12,919
Cash generated from operations		497,703	383,634
Interest received		6,806	1,679
PRC profit tax refunded		1,168	–
PRC profits tax paid		(119,055)	(29,525)
Net cash flows from operating activities		386,622	355,788
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(265,285)	(266,181)
Proceeds from disposal of items of property, plant and equipment		7	64
Prepayments of land lease payments		(63,455)	(24,465)
Purchase of available-for-sale investments		(200)	–
Purchase of held-to-maturity investments		(200,000)	–
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(451,950)	(83,507)
Net cash flows used in investing activities		(980,883)	(374,089)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 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 non-controlling shareholders		–	11,271
Proceed from the exercise of share options	28	3,994	–
New bank loans		180,000	406,900
Repayment of bank loans		(114,900)	(433,000)
Interest paid		(7,443)	(14,367)
Dividend paid		(153,136)	–
Dividends paid to then shareholders of subsidiaries		–	(260,381)
Dividends paid to non-controlling shareholders		(5,400)	(66,940)
Net cash flows from/(used in) financing activities		(96,885)	834,100
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(691,146)	815,799
Cash and cash equivalents at beginning of year		944,355	128,535
Effect of foreign exchange rate changes, net		(930)	21
CASH AND CASH EQUIVALENTS AT END OF YEAR		252,279	944,355
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	245,673	719,034
Non-pledged time deposits with original maturity of less than three months when acquired		6,606	225,321
Cash and cash equivalents as stated in the consolidated statement of cash flows		252,279	944,355
Non-pledged time deposits with original maturity of over three months when acquired		535,457	83,507
Cash and cash equivalents as stated in the consolidated statement of financial position		787,736	1,027,862

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**1,143,445**	1,340,067
Total non-current assets		**1,143,445**	1,340,067
CURRENT ASSETS			
Amounts due from subsidiaries	17	**379,426**	113,889
Other receivables	22	**224**	3,198
Bank balances	24	**4,121**	3
Total current assets		**383,771**	117,090
CURRENT LIABILITIES			
Amount due to a subsidiary	17	**1,781**	1,697
Other payables and accruals	26	**2,398**	3,064
Total current liabilities		**4,179**	4,761
NET CURRENT ASSETS		**379,592**	112,329
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,523,037**	1,452,396
Net assets		**1,523,037**	1,452,396
EQUITY			
Issued capital	28	**14,633**	14,624
Reserves	30(b)	**1,508,404**	1,437,772
Total equity		**1,523,037**	1,452,396

Zhou Yaxian
Director

Ru Xiquan
Director

1. Corporate Information

Shenguan Holdings (Group) Limited (the "Company") was incorporated in the Cayman Islands on 24 February 2009 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. The registered office of the Company is 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 casing 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 on 13 October 2009.

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 2010 and 2009 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.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised) and HKAS 27 (Revised), amendments to HKAS 7 included in Improvements to HKFRSs 2009, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group is HKAS 7 *Statement of Cash Flows*. This amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

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 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*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Deferred tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

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

Further information about those changes that are expected to significantly affect the Group is as follows:

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

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

(a) HKFRS 3 *Business Combinations* (Continued)

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 9 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 years ended 31 December 2009 and 2010. 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 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.

2.4 Summary of Significant Accounting Policies (Continued)

Basis of combination (Continued)

Basis of consolidation from 1 January 2010

The financial statements of the subsidiaries under the purchase method of accounting are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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 asset.

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).

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.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value 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

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

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.

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 investments, 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, trade and bills receivables, and prepayments, deposits and other receivables.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (continued)

Subsequent measurement

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

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.

Loans and receivables

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

Held-to-maturity investments

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

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.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)
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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

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

Available-for-sale financial 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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.

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;

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

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

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

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 29 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Other employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to 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 (the "PRC"), the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The costs of employee retirement benefits are recognised as cost of sales and administrative expenses in 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.

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 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.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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 reporting period. However, uncertainly about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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 realise.

Impairment of receivables

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

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down 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.

2.5 Significant Accounting Estimates (Continued)

Estimation uncertainty (Continued)

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	
	2010	2009
	RMB'000	*RMB'000*
Western-style collagen sausage casing	**1,080,221**	722,856
Chinese-style collagen sausage casing	**72,468**	71,562
	1,152,689	794,418

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 2010, revenue generated from a single (2009: one) customer of the Group amounting to RMB467,377,000 (2009: RMB304,720,000) 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	
	2010	2009
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,152,689**	794,418
Other income, net		
Bank interest income	**14,048**	1,679
Interest income from held-to-maturity investments	**1,965**	–
Sales of dried meat products	**1,143**	913
Rental income	**5**	10
Reversal of impairment of trade and other receivables, net	**3,181**	21
Government grants*	**4,144**	562
Others	**556**	115
	25,042	3,300
Gains		
Gain on disposal of equity investments at fair value through profit or loss	**–**	248
Foreign exchange gains, net	**24,076**	–
	24,076	248
	49,118	3,548

* *Various government grants have been received in respect of successful initial public offering, improvements made to plant and machinery and the acquisition of 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 2010.*

5. Finance Costs

	Group	
	2010	2009
	RMB'000	*RMB'000*
Interest on bank loans	**7,443**	14,367
Less: Government grants*	**(7,695)**	(2,919)
	(252)	11,448

* *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 2010.*

6. Profit Before Tax

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

		Group	
	Notes	**2010** **RMB'000**	2009 RMB'000
Cost of inventories sold		**168,288**	117,796
Depreciation:			
Property, plant and equipment	*13*	**31,808**	19,994
Investment property	*14*	**–**	4
		31,808	19,998
Amortisation of a patent*	*16*	**859**	858
Amortisation of land lease payments	*15*	**1,216**	642
Research and development costs:			
Current year expenditure		**87,054**	23,390
Less: Government grants released**		**–**	(1,305)
		87,054	22,085
Employee benefit expense (including directors' remuneration *(note 7)*):			
Wages and salaries		**111,290**	79,402
Equity-settled share option expense		**3,484**	842
Retirement benefit contributions		**16,351**	8,818
		131,125	89,062
Minimum lease payments under operating leases in respect of buildings		**750**	615
Auditors' remuneration		**1,828**	1,763
Loss on disposal of items of property, plant and equipment		**691**	2,204
Impairment of inventories		**2,188**	–
Impairment/(reversal of impairment) of trade receivables	*21*	**(1,635)**	1,128
Reversal of impairment of other receivables, net		**(1,546)**	(21)
Foreign exchange differences, net		**(24,076)**	64

* *The amortisation of a patent is included in "Administrative expenses" on the face of the consolidated statement of comprehensive income.*

** *For the year ended 31 December 2009, various government grants have been received for setting up research activities to improve 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.*

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	
	2010	2009
	RMB'000	*RMB'000*
Fees	**821**	180
Other emoluments:		
Salaries, allowances and benefits in kind	**2,048**	873
Discretionary performance-related bonuses	**7,723**	8,819
Equity-settled share option expense	**1,767**	426
Retirement benefit contributions	**12**	12
	11,550	10,130
	12,371	10,310

During 2009, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of 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.

(a) Independent non-executive directors

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

	2010	2009
	RMB'000	*RMB'000*
Mr. Tsui Yung Kwok	**157**	45
Mr. Meng Qinguo	**157**	45
Mr. Yang Xiaohu	**157**	45
	471	135

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

7. Directors' Remuneration (Continued)

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Discretionary performance-related bonuses	Equity-settled share option expense	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2010						
Executive directors:						
Ms. Zhou Yaxian	70	987	3,511	–	3	4,571
Ms. Cai Yueqing	70	353	1,404	589	3	2,419
Mr. Shi Guicheng	70	354	1,404	589	3	2,420
Mr. Ru Xiquan	70	354	1,404	589	3	2,420
	280	2,048	7,723	1,767	12	11,830
Non-executive director:						
Mr. Low Jee Keong	70	–	–	–	–	70
	350	2,048	7,723	1,767	12	11,900

	Fees	Salaries, allowances and benefits in kind	Discretionary performance-related bonuses	Equity-settled share option expense	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2009: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2009: one) non-director, highest paid employee for the year are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**414**	49
Performance-related bonuses	**1,404**	1,603
Equity-settled share option expense	**589**	142
Pension scheme contributions	**3**	3
	2,410	1,797

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

	Number of employees	
	2010	2009
RMB1,500,001 to RMB2,000,000	**–**	1
RMB2,000,001 to RMB2,500,000	**1**	–
	1	1

During 2009, 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 29 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 non-director, highest paid employee's 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 2010.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") being the Company's subsidiary, is located in Wuzhou, Guangxi in the Western Region of China and is subject to the region's preferential corporate income tax ("CIT") rate of 15% as set out in the Circular on Issues Concerning Preferential Tax Policies for the Development of Western Regions (Cai Shui 2001 No. 202).

9. Income Tax (Continued)

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 engaging in manufacturing are exempted from CIT for two years commencing from their first year with assessable profits after deducting tax losses brought forward, and are entitled to a 50% tax exemption for the subsequent three years.

Pursuant to the Circular on the Implementation of Transitional Preferential Corporate Income Tax Policies (Guo Fa 2007 No. 39), enterprises entitled to CIT 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 Corporate Income Tax which came into force on 1 January 2008. The preferential tax policies for the development of western regions allow a preferential CIT rate of 15%. 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 CIT for the two years ended 31 December 2005 and 2006 and subject to CIT at a rate of 7.5% for the three years ended 31 December 2007, 2008 and 2009.

	2010	2009
	RMB'000	*RMB'000*
Group:		
Current tax charge for the year		
– PRC	**132,622**	45,353
Overprovision in prior year	**(1,575)**	–
Deferred tax (note 19)	**3,473**	(9,355)
Total tax charge for the year	**134,520**	35,998

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 – 2010

	Mainland China		Hong Kong		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax	671,543		(6,721)		664,822	
Tax at the statutory tax rate	167,886	25.0	(1,109)	16.5	166,777	25.1
Lower tax rate for specific provinces or enacted by local authority	(67,219)		–		(67,219)	
Effect on opening deferred tax of decrease in rates	5,342		–		5,342	
Adjustments in respect of current tax of previous period	(1,575)		–		(1,575)	
Expenses not deductible for tax	1,597		1,230		2,827	
Income not subject to tax	(704)		(121)		(825)	
Recognition of prior years' temporary differences not recognised	(365)		–		(365)	
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	29,558		–		29,558	
Tax charge at the Group's effective rate	134,520	20.0	–	–	134,520	20.2

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 10% 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

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of RMB270,822,000 (2009: RMB87,877,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. Dividends

	2010 *RMB'000*	2009 *RMB'000*
Dividends declared by the Company's subsidiaries to their then shareholders	–	329,721
Interim dividend		
– HK6.0 cents (2009: Nil) per ordinary share	85,841	–
Final dividend proposed subsequent to the reporting period		
– HK8.0 cents (2009: HK4.6 cents) per ordinary share	113,079	67,295
Special dividend		
– HK2.0 cents (2009: Nil) per ordinary share	27,955	–
	226,875	397,016

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

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

The calculation of basic earnings per share amount for the year ended 31 December 2010 is based on the profit for the year attributable to ordinary owners of the Company of RMB513,458,000 (2009: RMB326,061,000), and the weighted average number of ordinary shares of 1,660,186,000 (2009: 1,300,658,000) in issue during the year ended 31 December 2010. For the year ended 31 December 2009, the weighted average number of ordinary shares calculated on the assumption that the Reorganisation and the capitalisation issue, as detailed in notes 1 and 28, had been completed on 1 January 2009.

The calculation of diluted earnings per share amount for the year ended 31 December 2010 is based on the profit for the year attributable to ordinary owners of the Company of RMB513,458,000 (2009: 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 2010, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 2,626,000 (2009: 236,000) assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares.

13. Property, Plant and Equipment

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2010					
At 31 December 2009 and 1 January 2010:					
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
At 1 January 2010, net of accumulated depreciation	112,042	292,537	7,752	58,146	470,477
Additions	4,578	22,710	6,148	251,016	284,452
Disposals	–	(698)	–	–	(698)
Depreciation provided during the year	(4,538)	(26,160)	(1,110)	–	(31,808)
Transfers	47,551	112,349	–	(159,900)	–
Exchange realignment	–	(2)	–	–	(2)
At 31 December 2010, net of accumulated depreciation	159,633	400,736	12,790	149,262	722,421
At 31 December 2010:					
Cost	181,547	480,078	16,254	149,262	827,141
Accumulated depreciation	(21,914)	(79,342)	(3,464)	–	(104,720)
Net carrying amount	159,633	400,736	12,790	149,262	722,421

13. Property, Plant and Equipment (Continued)

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2009					
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

14. Investment Property

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

15. Prepaid Land Lease Payments

	Group	
	2010 ***RMB'000***	2009 *RMB'000*
Carrying amount at beginning of year	**34,109**	28,076
Additions during the year	**77,122**	6,675
Recognised during the year	**(1,216)**	(642)
Carrying amount at end of year	**110,015**	34,109
Current portion included in prepayments, deposits and other receivables	**(2,283)**	(2,323)
Non-current portion	**107,732**	31,786

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

16. Patent

	Group	
	2010	2009
	RMB'000	*RMB'000*
At beginning of year, net of accumulated amortisation	**2,003**	2,861
Amortisation provided during the year	**(859)**	(858)
At end of year, net of accumulated amortisation	**1,144**	2,003
At end of year:		
Cost	**6,867**	6,867
Accumulated amortisation	**(5,723)**	(4,864)
Net carrying amount	**1,144**	2,003

17. Investments in Subsidiaries

	Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted shares, at cost	**166,502**	172,636
Advances to subsidiaries	**972,728**	1,166,589
Capital contribution in respect of employee share-based compensation	**4,215**	842
	1,143,445	1,340,067

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

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB379,426,000 (2009: RMB113,889,000) and RMB1,781,000 (2009: RMB1,697,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

17. Investments in Subsidiaries (Continued)

Particulars of the principal subsidiaries at 31 December 2010 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 Direct	Indirect	Principal activities
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
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
梧州市神冠投資開發有限公司 (Wuzhou Investment Development Co., Ltd.)*	PRC/Mainland China	RMB50,000,000	–	97%	Investment holding

* *Not audited by Ernst & Young, Hong Kong or another 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.

18. Available-For-Sale Investment

The investment represented investment in equity securities which is designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The unlisted equity investments, whose fair value cannot be measured reliably, have been stated at cost less impairment.

19. Deferred Tax

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

Deferred tax assets

Group

	Deferred government grants	Depreciation in excess of related depreciation allowance	Accrued salary	Losses available for offsetting against future taxable profits	Impairment provision against trade receivables	Impairment provision against inventories	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	–	1,081	–	519	1,308	–	2,908
Deferred tax credited/(charged) to the statement of comprehensive income *(note 9)*	2,490	1,326	6,783	(519)	366	–	10,446
At 31 December 2009 and at 1 January 2010	2,490	2,407	6,783	–	1,674	–	13,354
Deferred tax credited/(charged) to the statement of comprehensive income *(note 9)*	(377)	(981)	(2,608)	–	(927)	329	(4,564)
At 31 December 2010	2,113	1,426	4,175	–	747	329	8,790

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 and at 1 January 2010	1,091
Deferred tax credited to the statement of comprehensive income *(note 9)*	(1,091)
At 31 December 2010	–

19. Deferred Tax (Continued)

Deferred tax liabilities (Continued)

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

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

20. Inventories

	Group	
	2010	2009
	RMB'000	*RMB'000*
Raw materials	**54,303**	33,242
Work in progress	**8,320**	7,009
Finished goods	**56,226**	6,611
	118,849	46,862

21. Trade and Bills Receivables

	Group	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**138,527**	84,053
Bills receivable	**3,000**	–
Due from a related company	**665**	638
Less: Impairment	**(4,982)**	(6,695)
	137,210	77,996

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.

21. Trade and Bills Receivables (Continued)

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	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**129,021**	75,107
3 to 4 months	**1,260**	490
Over 4 months	**3,264**	1,761
	133,545	77,358

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

		Group	
		2010	2009
	Note	***RMB'000***	*RMB'000*
At beginning of year		**6,695**	5,567
Impairment loss recognised	*6*	**–**	1,128
Amount written off as uncollectible		**(78)**	–
Impairment losses reversed	*6*	**(1,635)**	–
At end of year		**4,982**	6,695

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB4,982,000 (2009: RMB6,695,000) with the same amounts as gross carrying amounts. The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments are only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**123,866**	69,934
Less than 1 month past due	**5,155**	4,907
1 to 2 months past due	**1,260**	404
Over 2 months past due	**3,264**	2,113
	133,545	77,358

21. Trade and Bills Receivables (Continued)

Due from a related company:

	Group		
	31 December 2010 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	1 January 2010 *RMB'000*
Exceltech Enterprise ("Exceltech")	**665**	**3,272**	**638**

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 terms similar to those offered to other major customers of the Group.

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

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

22. Prepayments, Deposits and Other Receivables

	Group		Company	
	2010 *RMB'000*	2009 *RMB'000*	**2010** *RMB'000*	2009 *RMB'000*
Prepayments	**35,472**	12,714	**–**	–
Deposits and other receivables	**61,892**	25,051	**224**	3,198
	97,364	37,765	**224**	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 was no recent history of default.

23. Held-To-Maturity Investments

Included in the balance were one-year term unlisted, non-transferrable PRC Certificate Treasury Bonds issued by the Ministry of Finance of the PRC. During the year, the effective interest rate of the held-to-maturity investments was 2.6% per annum. The investments were carried at amortised cost.

24. Cash and Cash Equivalents

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**245,673**	719,034	**4,121**	3
Time deposits	**542,063**	308,828	**–**	–
	787,736	1,027,862	**4,121**	3

At the end of reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB771,019,000 (2009: RMB534,336,000). 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.

25. 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	
	2010	2009
	RMB'000	*RMB'000*
Within 1 month	**20,433**	18,687
1 to 2 months	**1,976**	2,217
2 to 3 months	**697**	897
Over 3 months	**3,251**	2,426
	26,357	24,227

The trade payables are non-interest-bearing and are normally settled on terms of 60 days.

There was no trade payable (2009: RMB1,000) to Wuzhou Junye Trademark Printing Material Co., Ltd. ("Wuzhou Junye Printing Material") as at the end of the reporting period. Wuzhou Junye Printing Material is controlled by the spouse of Ms. Zhou Yaxian, a director of the Company. The balance with Wuzhou Junye Printing Material is unsecured, interest-free and is repayable within 20 days after receipt of goods.

26. Other Payables and Accruals

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**9,156**	9,146	**–**	–
Accruals	**54,747**	44,316	**169**	–
Other payables	**49,428**	48,214	**2,229**	3,064
Due to a related party	**–**	1,502	**–**	–
Due to a non-controlling shareholder	**6,300**	2,400	**–**	–
	119,631	105,578	**2,398**	3,064

Other payables are non-trade, unsecured and non-interest-bearing and are normally settled on terms of 60 days.

Due to a related party:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Guangxi Wuzhou Sanjian Medicine Co., Ltd. ("Wuzhou Sanjian")	**–**	1,502

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

27. Interest-Bearing Bank Borrowings

Group

	2010			2009		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Non-current						
Bank loans:						
– unsecured	**5.76 – 6.03**	**2013**	**140,000**	5.18-5.76	2012-2014	74,900

The bank loans are denominated in RMB and are repayable in the third to fifth year, inclusive.

The carrying amounts of the Group's 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.

28. Share Capital

Shares

	2010 *HK$'000*	2009 *HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
1,661,060,000 (2009: 1,660,000,000) ordinary shares of HK$0.01 each	**16,611**	16,600
Equivalent to RMB'000	**14,633**	14,624

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 and at 1 January 2010	1,660,000,000	16,600	1,334,879	14,624	1,176,002	1,190,626
Share option exercise *(note (d))*	1,060,000	11	6,271	9	5,476	5,485
At 31 December 2010	1,661,060,000	16,611	1,341,150	14,633	1,181,478	1,196,111

28. Share Capital (Continued)

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.

(d) The subscription rights attaching to 1,060,000 share options were exercised at the subscription price of HK$4.33 per share (note 29), resulting in the issue of 1,060,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$4,590,000 (equivalent to RMB3,994,000). An amount of HK$1,692,000 (equivalent to RMB1,491,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

29. 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 is authorised, at its absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants and advisors or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 13 October 2009 and shall be valid and effective for a period of ten years commencing on 19 September 2009, subject to the early termination provisions contained in the Scheme.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the Shares in issue on the Listing Date. The Company may at any time refresh 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.

29. Share Option Scheme (Continued)

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:

	2010		2009	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**4.33**	**6,000**	–	–
Granted during the year	**–**	**–**	4.33	6,000
Exercised during the year	**4.33**	**(1,060)**	–	–
At 31 December	**4.33**	**4,940**	4.33	6,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$10.13 per share (2009: No share options were exercised).

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

2010

Number of options ***'000***	**Exercise price*** ***HK$ per share***	**Exercise period**
4,940	**4.33**	**13 October 2010 – 12 October 2015**
4,940		

29. Share Option Scheme (Continued)

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 in 2009 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 RMB3,484,000 (2009: RMB842,000) during the year ended 31 December 2010.

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

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

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

The 1,060,000 share options exercised during the year resulted in the issue of 1,060,000 ordinary shares of the Company and new share capital of HK$11,000 (equivalent to RMB9,000) and share premium of HK$4,580,000 (equivalent to RMB3,985,000) (before issue expenses), as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 4,940,000 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 4,940,000 additional ordinary shares of the Company and additional share capital of HK$49,000 (RMB42,000) and share premium of HK$21,340,000 (RMB19,416,000) (before issue expenses).

29. Share Option Scheme (Continued)

At the date of approval of these financial statements, the Company had 4,940,000 share options outstanding under the Scheme, which represented approximately 0.30% of the Company's shares in issue as at that date.

30. Reserves

(a) Group

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

(i) *Contributed surplus*

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

(ii) *Reserve funds*

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

(iii) *Other reserves*

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

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 a 33.51% equity interest in Wuzhou Shenguan. On the same date, Glories Site 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 interest 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.

30. Reserves (Continued)

(b) Company

	Share premium account* RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits* RMB'000	Total RMB'000
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 28(a))*	(10,563)	–	–	–	–	(10,563)
Issue of shares in connection with the Listing *(note 28(b))*	1,088,891	–	–	–	–	1,088,891
Over-allotment of shares *(note 28(c))*	163,334	–	–	–	–	163,334
Share issue expenses	(65,660)	–	–	–	–	(65,660)
Equity-settled share option arrangement	–	–	–	842	–	842
At 31 December 2009 and at 1 January 2010	1,176,002	172,535	516	842	87,877	1,437,772
Profit for the year	–	–	–	–	270,822	270,822
Exchange realignment	–	–	(54,523)	–	–	(54,523)
Total comprehensive income for the year	–	–	(54,523)	–	270,822	216,299
Issue of shares in connection with exercise of share options	5,476	–	–	(1,491)	–	3,985
Equity-settled share option arrangement	–	–	–	3,484	–	3,484
Final 2009 dividend	–	–	–	–	(67,295)	(67,295)
Interim 2010 dividend	–	–	–	–	(85,841)	(85,841)
At 31 December 2010	1,181,478	172,535	(54,007)	2,835	205,563	1,508,404

* *These reserve accounts comprise the Company's reserves available for distribution amounting to RMB1,387,041,000 (2009: RMB1,263,879,000).*

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

31. Contingent Liabilities

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

32. Operating Lease Arrangements

As lessee

The Group leases certain of its retail outlets and its office premises under operating lease arrangements. Leases are negotiated for terms ranging from 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	
	2010	2009
	RMB'000	*RMB'000*
Within one year	**673**	339
In the second to fifth years, inclusive	**308**	–
	981	339

33. Commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Buildings	**18,057**	33,972
Plant and machinery	**9,170**	52,031
Authorised, but not contracted for:		
Production facilities	**416,489**	356,928
	443,716	442,931

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

34. 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	2010 RMB'000	2009 RMB'000
Company controlled by a director of the subsidiary:			
Sales of products	(i)	281	1,365
Commission paid	(ii)	419	249
Company controlled by a director of the Company:			
Sales of products	(i)	4,359	2,389
Companies controlled by spouse of a director of the Company:			
Sales of materials	(iii)	267	455
Purchases of materials	(iii)	–	695
Rental of boiler	(iii)	–	20
Purchases of land lease and buildings	(iv)	–	3,004
Purchases of packing materials	(iii)	15,870	9,901

Notes:

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

(ii) The commission was calculated based on 2.3% (2009: 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 21, 25 and 26 to these financial statements.

34. Related Party Disclosures (Continued)

(c) Compensation of key management personnel of the Group

	2010 *RMB'000*	2009 *RMB'000*
Fees	280	–
Salaries, allowances and benefits in kind	2,842	1,274
Performance-related bonuses	9,884	10,861
Retirement benefit contributions	26	24
Equity-settled share option expense	2,913	704
Total compensation paid to key management personnel	15,945	12,863

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

35. Financial Instruments by Category

Other than an available-for-sale investment and held-to-maturity investments as disclosed in notes 18 and 23 of the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

36. Fair Value Hierarchy

During the year ended 31 December 2010, there were no transfers of fair value measurements between Level 1 and Level 2, and no transfers into or out of Level 3.

37. Financial Risk Management Objectives and Policies

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

37. Financial Risk Management Objectives and Policies (Continued)

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 2010, 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 2010 would have been lower/higher (through the impact on floating rate borrowings) by the amount of RMB1,414,000 (2009: RMB1,958,000).

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 were settled in other currencies including United States dollars. The fluctuation of the exchange rates of such currencies against RMB will affect the Group's results of operations.

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

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

37. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (continued)

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 2010 and 2009 and there would be no impact on the Group's equity.

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21.

37. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

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

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2010			
	Within one year or on demand *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Total *RMB'000*
Interest-bearing bank borrowings	8,708	8,708	146,458	163,874
Trade payables	26,357	–	–	26,357
Other payables and accruals	119,631	–	–	119,631
	154,696	8,708	146,458	309,862

	2009			
	Within one year or on demand *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Total *RMB'000*
Interest-bearing bank borrowings	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

37. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (continued)

Company

As at 31 December 2010, the Company had other payables and accruals and an amount due to a subsidiary amounting to RMB2,398,000 (2009: RMB3,064,000) and RMB1,781,000 (2009: 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 2010 and 2009.

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 ends of the reporting periods were as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**140,000**	74,900
Trade payables	**26,357**	24,227
Other payables and accruals	**119,631**	105,578
Less: Cash and cash equivalents	**(787,736)**	(1,027,862)
Net debt/(asset)	**(501,748)**	(823,157)
Adjusted capital	**1,837,679**	1,496,641
Gearing ratio	**(27%)**	(55%)

37. Financial Risk Management Objectives and Policies (Continued)

Fair value

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

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

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

38. Event after the Reporting Period

In March 2011, the Group has, in total, acquired one-year term non-transferable PRC Certificate Treasury Bonds issued by The Ministry of Finance of the PRC amounting RMB150,000,000. These bonds bear interest at 3.45% per annum.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board on 21 March 2011.

Five Year Financial Summary

The consolidated results of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (together the "Group") for the years ended 31 December 2009, 2010 and the consolidated assets, liabilities and non-controlling interests of the Group as at 31 December 2009, 2010 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 non-controlling 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.

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

Year ended 31 December

RESULTS	**2010** *RMB'000*	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*	2006 *RMB'000*
REVENUE	**1,152,689**	794,418	454,053	259,291	178,279
Cost of sales	**(454,616)**	(308,641)	(203,971)	(123,082)	(75,678)
Gross profit	**698,073**	485,777	250,082	136,209	102,601
Other income and gains	**49,118**	3,548	3,882	4,747	2,579
Selling and distribution costs	**(14,595)**	(11,191)	(7,153)	(5,740)	(4,579)
Administrative expenses	**(68,026)**	(79,587)	(23,109)	(17,550)	(12,952)
Other expenses	**–**	–	(1,240)	(1,603)	(386)
Finance costs, net	**252**	(11,448)	(8,836)	(1,074)	(1,138)
PROFIT BEFORE TAX	**664,822**	387,099	213,626	114,989	86,125
Income tax expense/(credit)	**(134,520)**	(35,998)	(16,812)	13,647	2,136
PROFIT FOR THE YEAR	**530,302**	351,101	196,814	128,636	88,261
Profit attributable to:					
Owners of the Company	**513,458**	326,061	172,853	120,932	84,817
Non-controlling interests	**16,844**	25,040	23,961	7,704	3,444
	530,302	351,101	196,814	128,636	88,261
As at 31 December **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS**					
TOTAL ASSETS	**2,199,754**	1,752,793	465,907	336,691	233,452
TOTAL LIABILITIES	**(335,154)**	(236,775)	(175,212)	(145,244)	(69,714)
NON-CONTROLLING INTERESTS	**(26,921)**	(19,377)	(40,615)	(11,466)	(9,807)
	1,837,679	1,496,641	250,080	179,981	153,931