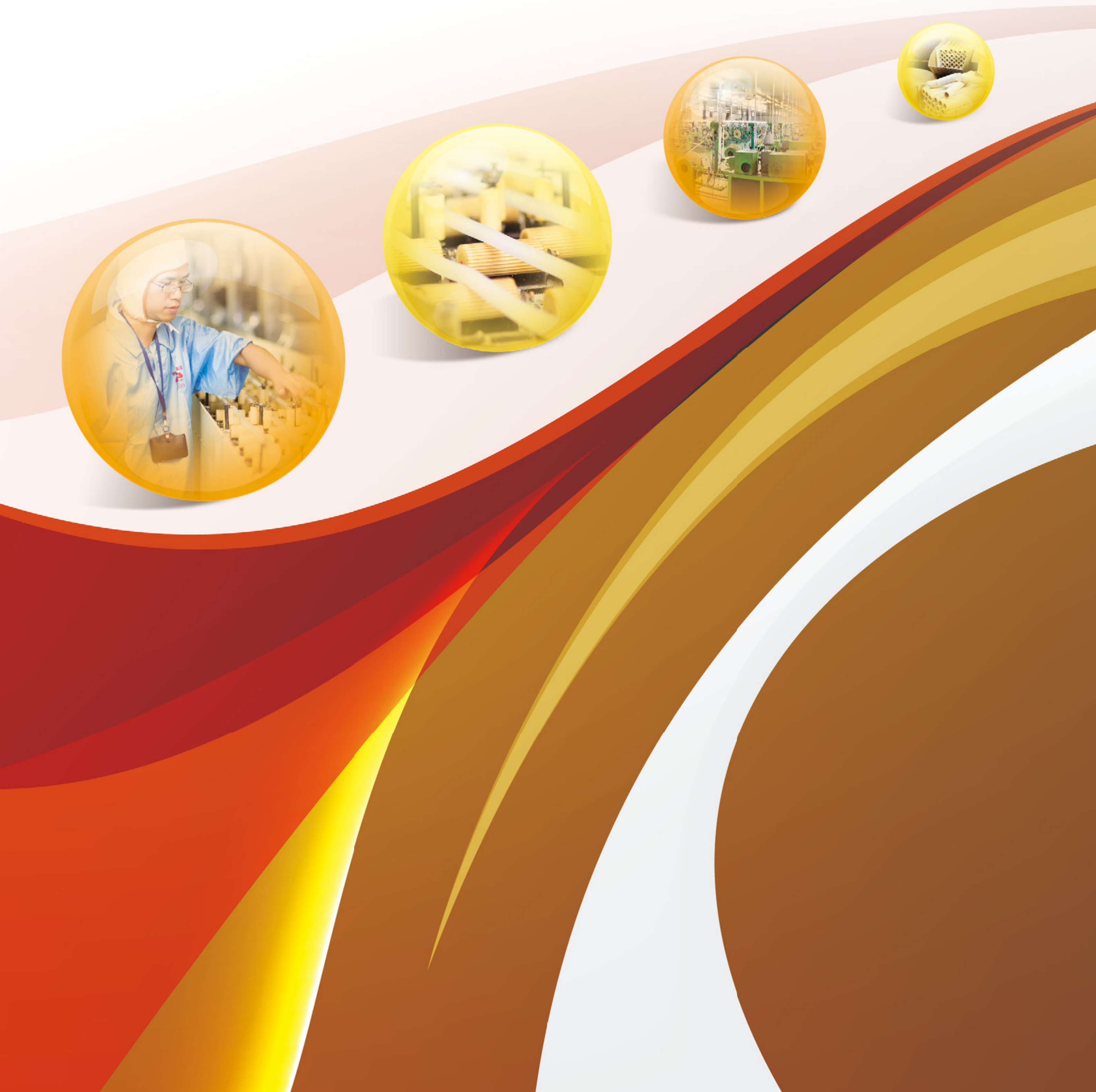
Shenguan Holdings (Group) Limited

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

2011 ANNUAL REPORT



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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
22/F CITIC Tower
1 Tim Mei Avenue
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
Hang Seng Composite MidCap Index

KEY DATES

13 October 2009
Listed on Hong Kong Stock Exchange

19 March 2012
Announcement of 2011 Annual Results

11 May 2012 to 16 May 2012
(both days inclusive)
Closure of Register of Members
(for Annual General Meeting)

16 May 2012
Annual General Meeting

22 May 2012 to 24 May 2012
(both days inclusive)
Closure of Register of Members (for Final Dividend)

on or around 5 June 2012
Final Dividend Payable Date

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 2011
3,322,120,000 shares

Market capitalization as at 31 December 2011
HK$14,949,540,000

Basic earnings per share for 2011

Full year	RMB20.7 cents

Dividend per share for 2011

Full year	HK10.3 cents

ENQUIRIES CONTACT

Mr. Ng Yuk Yeung
Financial Controller

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WEBSITE

www.shenguan.com.cn

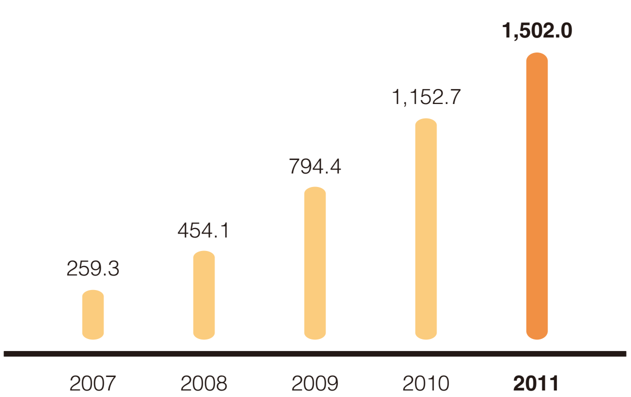
Financial Highlights

Financial and Operating Highlights for the year ended 31 December

(RMB million, except where otherwise stated)	2011	2010	% change
Total Production Volume (million meters)	**3,551.4**	2,908.1	+22.1
Total Sales Volume (million meters)	**3,385.1**	2,575.6	+31.4
Revenue	**1,502.0**	1,152.7	+30.3
Profit attributable to Owners of the Company	**689.3**	513.5	+34.3
Basic Earnings Per Share (RMB cents) (2010 restated)	**20.7**	15.5	+33.5
Dividend Per Share (HK cents) (2010 restated)			
– Interim	**4.3**	3.0	+43.3
– Final	**6.0**	4.0	+50.0
– Special	**Nil**	1.0	N/A
Cash Inflow from Operation	**696.6**	386.6	+80.2
Total Assets	**2,192.4**	2,199.8	-0.3
Inventory Turnover Day – Raw Materials (days)	**41.3**	35.1	+6.2 days
Inventory Turnover Day – FG & WIP (days)	**54.9**	31.4	+23.5 days
Trade Receivables Turnover Day (days)	**36.9**	34.1	+2.8 days
Trade Payables Turnover Day (days)	**56.3**	42.0	+14.3 days

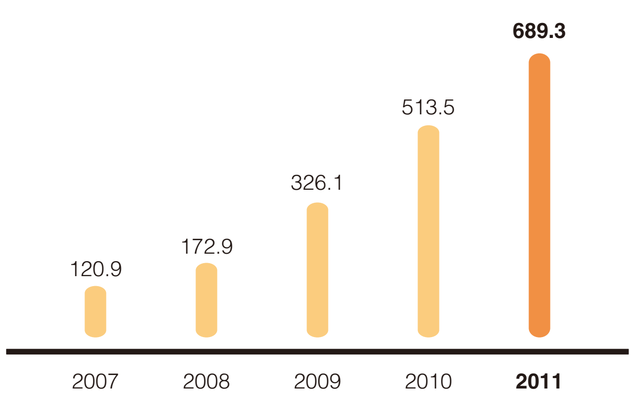
Turnover

RMB million



Profit attributable to Owners of the Company

RMB million



Chairman's Statement

Ms. Zhou Yaxian
Chairman and
President of our Company

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 2011 (the "Year" or the "Period").

2011 signified the beginning of the "Twelfth Five-year Plan" in the PRC and was also the second year of Shenguan Holdings adopting "continuous consolidation and innovation" as our development goal. The Group was able to establish preliminary platforms in the expansion of our production capacity, research and development and internal control. The year 2011 was a significant year in the Group's course of development as we strengthened our foundation and achieved steady advancement, which marked a profound influence on the Group's future development.

In 2011, the Group continued to see rapid increase in our revenue and earnings owing to the increasing market demand for sausage products which also stimulated the demand for collagen sausage casing products. Under the leadership of our management team, the Group was able to overcome challenges brought about by the appreciation of Renminbi, soaring raw materials prices and certain delay in the relocation of collagen processing plant and completed the goals laid down by the Board as planned. Thanks to the efforts of dedicated staff, the Group was able to enhance operation efficiency and broaden our product offerings during the year under review, thus enabling the Group to sustain our market leadership and strive for long-term business growth.

Revenue from the sales of the Group's collagen sausage casings soared 30.3% to RMB1,501,985,000 in 2011 as compared to corresponding period in 2010. During the same period, the gross profit margin increased to 61.9% from 60.6% a year ago. Profit attributable to owners of the Company was RMB689,319,000 for the Year, representing a growth of 34.3% year on year. The basic earnings per share of the Group was RMB20.7 cents. The Board is pleased to propose a final dividend of HK6.0 cents. Taking into account the interim dividend of HK4.3 cents that was announced for the interim period, total dividend of the Group amounted to HK10.3 cents for the full year of 2011.

During the Year, the uncertain global economic environment had limited effect on the domestic demand for low-temperature meat products as urbanization persisted in an accelerated speed and the disposable income of consumers in the PRC continued to increase. As a leading manufacturer of edible collagen sausage casings in the PRC market, the Group was able to seize this market opportunity and achieve progressive results in collagen casings production, sales and sales revenue during the Year.

During the Year, the Group continued to expand our production capacity to serve the rapid growing market demand. The Group planned to increase a total of 50 production lines during the Year. However, due to the lack of electricity supply for transformers in the production area, only 20 production lines could be assembled on schedule. Out of the 30 production lines, the setup of 16 production lines was completed in March 2012, the remaining 14 production lines are expected to be completed in April 2012. The Group also completed the setting up of a special area for the production of Muslim sausage casings and the reconstruction of 4 production lines for large diametrical sausage casings. As at the end of December 2011, the Group's annualized production capacity reached 3,808.0 million meters with a utilization rate of 93.3%. Production volume reached 3,551.4 million meters of sausage casings, enabling the Group to remain the largest manufacturer of edible collagen sausage casings in the PRC.

The Group made continuous improvement to our energy saving technology. Riding on our initial success in 2009 when new technology was used to replace steam boilers in the drying process of sausage casings, the Group continued to optimize and upgrade the technology during the Year. The Group also worked on the expansion of our product portfolio and successfully developed a new type of casing with only 13 mm in diameter. The Group had registered 24 patents with the State Intellectual Property Office in the PRC at the end of December 2011.

To ensure the best quality of our products, the Group also established a technology center to enhance the Group's innovation ability and an examination center for the assessment of raw materials and finished goods with advanced technology. The examination center can detect, including but not limited to, pesticide residues, drug residues and heavy metals.

The Group highly values our relationship with customers as one of our key competitive strengths and a great asset of the Company. During the Period, we continued to dedicate our effort in co-developing new products with our 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 our customers over the years. The Group also follows up closely to market response and customers' feedbacks after launching of new products. These measures enable the Group to reinforce customer loyalty and strengthen our partnership with customers.

In answering to customers' needs and capturing new market opportunities, the Group acquired a license to produce Muslim sausage casings specially dedicated to the Muslim population in the PRC. This new type of casing is currently available for sale in the PRC market and will be exported to overseas markets once the relevant permission has been granted. The related revenue from the sales of Muslim sausage casings is expected to be reflected in the full year results of 2012 and it will become one of the Group's long-term growth drivers.

Riding on the 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. With our 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 2012.

The processed meat industry in China was briefly affected by negative news concerning the safety and quality of products from key industry players. However, owing to the abundant demand for processed meat products in the PRC, it is expected that the China meat processing industry will recover in the near term. In light of this development, the Group plans to enhance efficiency of existing production lines to increase production volume catering for the abundant demand. In addition, the Group will leverage on our strong innovation capability to develop more new products in a more aggressive manner to maintain our profitability.

Looking ahead, the Group will enhance the product quality and further improve our food safety measures. The Group will also dedicate efforts in human resources management to improve the standard of our staff so as to support the development of the Group's expansion. We will also work on the improvement of our production techniques and the automation of monitoring processes to ensure that our products achieve the highest product quality.

In 2012, the Group plans to increase the production capacity by 20% to 25% 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 further expand the scale of our Sifu collagen production base to support the collagen need resulted from the expanded scale.

I would like to take this opportunity to express my sincere gratitude towards the hard work of my 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 our shareholders with prolific returns.

Zhou Yaxian
Chairman and President

Hong Kong, 19 March 2012

Management Discussion and Analysis

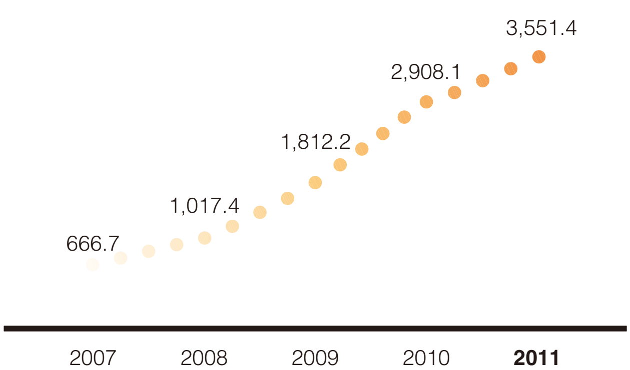
BUSINESS AND OPERATIONAL REVIEW

The year of 2011 marks the first year of the "Twelfth Five Year Plan" of China, which rolls out the main policy directions for further reform and development in the next five years. The global business environment remained challenging as the financial crises in Europe and the United States had added to the complexity of the global economic scene. Meanwhile, the PRC was able to sustain stable and relatively faster growth, with a price level that remained stable. The robust economic growth in the PRC contributed to the rise in the consumption power of its people. According to the preliminary figures of the National Bureau of Statistics, the 2011 gross domestic product ("GDP") of the PRC was approximately RMB47,156.4 billion, growing approximately 9.2% year-on-year. The annual per capita disposable income of urban residents was RMB21,810 and the annual per capita net income of rural residents was RMB6,977.

Stimulated by the continual expansion of the PRC economy and improved living standards brought about by a prosperous economy, the demand for meat products continued to increase. Demand for processed meat products has enjoyed fast growth in particular as consumers substitute fresh meat, which has seen rising pressure in selling price, with processed meat products. In the sausage casing business, the market penetration rate of collagen sausage casing products was far lower than that in other developed countries, indicating huge market potential. With its technological know-how, Shenguan Holdings is poised to benefit from opportunities in the vast market in the PRC.

Production Volume

(million meters)



Although rising concerns over food safety of meat products across the nation briefly affected the demand for fresh and processed meat products, the demand for the Group's collagen sausage casings remained strong and helped to boost its sales. Also, the growing demand from other industry players quickly offset the temporary decline in demand from major players.

During the Year, the Group continued to make progress in areas such as production capabilities, technology development and internal management, while overcoming

challenging factors such as Renminbi appreciation, rising raw materials prices, and the relocation of collagen processing plant, which successfully laid a solid foundation for the future development of the Group.

For the Year, revenue of the Group increased by 30.3% to RMB1,502.0 million from RMB1,152.7 million in 2010. Profit attributable to owners of the Company rose 34.3% to RMB689.3 million from RMB513.5 million in 2010.

The Board recommends the payment of a final dividend for the Year of HK6.0 cents per share (restated 2010: HK4.0 cents) but not recommends any special dividend for the Year (restated 2010: HK1.0 cent).

PRODUCT MIX

During the Year, the Group was principally engaged in the manufacture and sale of edible collagen sausage casings, most of which were used for Western-style sausages. Thanks to the rising demand for sausages, in particular, low temperature sausages, and the diversifying ingredients used in sausage products in the PRC market, the market demand for high quality collagen sausage casings continued to grow rapidly.

The Group obtained a license in October 2010 to produce Muslim sausage casings, a new collagen sausage casing product tailor-made for Muslims in the PRC, with the aim of diversifying its product portfolio, exploring new market opportunities and increasing market share in the collagen sausage casings industry. This new type of collagen sausage casings is currently sold locally within the PRC market, and is expected to be launched for sale overseas in 2012 upon receiving relevant authority permission.

During the Year, the Group offered different sizes of collagen sausage casing products, with diameters ranging from 13 mm to 50 mm. Mainland China remained the major market of the Group's products with over 96% of the sausage casings manufactured by the Group sold to sausage manufacturers in the PRC, while the remaining products were 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 skin in the future. During the Year, the cost of raw materials was RMB234.7 million (2010: RMB199.0 million), accounting for 41.0% of the total cost of sales.

COST CONTROL

It was a challenging year for the Group amidst growing cost pressure as a result of a combination of inflation, appreciation of Renminbi against other currencies and rising labor costs in 2011. Owing to the above factors, the Group dedicated efforts in enhancing the efficiency of existing production lines in the hope of coping with the rising market demand, optimizing its energy-saving facilities for cost-saving and leveraging on its R&D (as defined below) expertise to enrich product portfolio and maintain profitability. Meanwhile, the Group strengthened its centralized procurement management to reduce procurement costs, and to increase the benefits of economies of scale. Gross profit margin of the Group increased to 61.9% in 2011 from 60.6% in 2010.

PRODUCTION CAPACITY

During the Year, the Group increased its investment in order to expand its production capacity in light of the rapidly growing demand for collagen sausage casings.

As at 31 December 2011, the Group owned three production plants at Wuzhou, the PRC, with 190 production lines in operation. The Group originally planned to add 50 new production lines in the Wangfu production base. However, owing to the inadequate energy supply resulted from transformer overloading in the industrial zone, 30 out of the 50 planned production lines were therefore relocated to the Sifu production base, resulting in a delay in the project timetable. Out of the 30 production lines, the setup of 16 production lines was completed in March 2012, increasing the total number of production lines of the Group to 206 by the date of this report. The remaining 14 production lines are expected to be completed in April 2012.

For the Year, the weighted average capacity calculated by the operating time of the production lines (the production lines set aside for Muslim sausage casings inclusive) was 3,808.0 million meters and the actual production volume was approximately 3,551.4 million meters for the Year.

The Group's collagen processing plant capacity was greatly enhanced with the commencement of the new Sifu production base. The site formation work was completed on a land area of approximately 350,000 sq. m. in the Sifu production base with a construction area of approximately 110,000 sq. m. During the Year, the Group continued to move its collagen processing facilities into the new collagen processing plant from the old Fudian production base, which further strengthened the Group's collagen processing efficiency and improved the quality of the collagen processed. In addition, the Group enhanced the 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 typically involved in the early stage of the R&D process for new sausage products. The Group believes that strong R&D is the core of its success. In particular, patented technologies are the key to differentiate the Group from its peers and is able to raise the entry barriers for competitors to enter into the market. The Group will continue optimizing its production technology in order to reduce production costs. During the Year, the R&D expenses of the Group amounted to RMB158.5 million (2010: RMB87.1 million).

As at 31 December 2011, the Group had registered 2 trademarks and 24 patents with the State Intellectual Property Office, with another 9 patents being accepted for application and approval for these patents are pending.

QUALITY CONTROL

Quality control is another core competitive strengths of the Group. In order to produce high quality products for its customers, the Group undertakes strict quality control over every single production process. During the Year, the Group passed the ISO9001: 2008 Quality Management System and ISO22000: 2005 Food Safety Management System annual review for its quality control, and had obtained the Food and Drug Administration (FDA) registration for the export of products to the United States. In addition, all of the Group's products had complied with the national standards (GB14967-94) and sausage casing manufacturing industry standards (SB/T10373-2004). All these recognitions enable the Group to become a trustworthy product supplier for its customers.

In response to the rising standards of the food industry, the Group had exerted greater effort in the safety and quality control of its products. The Group had invested approximately RMB10.6 million for the establishment of an examination center for the assessment of raw materials and finished goods. In 2011, the Group installed new and advanced inspection and testing facilities, expanded the technology center in order to reinforce both the technology and examination centers at the same time. Currently, the examination centre can detect, including but not only, pesticide residues, drug residues and heavy metals.

CUSTOMER RELATIONSHIP

The Group provides tailor-made collagen sausage casing products (in different types and sizes) to fulfill customer needs, and is typically 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. The orders from customers of Southeast Asia increased by 185.1% as compared to 2010. During the Year, the Group continued to supply high quality sausage casing products to a number of renowned food product suppliers in the PRC.

ENERGY SAVING

The Group adopted and optimized the heat energy technology and the use of energy was greatly reduced. Technological innovation has been the Group's source of motivation in its course of development. The Group achieved ground-breaking development in energy saving technology and is listed as 2012 Guangxi 100 Billion Dollars Key Project in Technological Industry (廣西2012年千億元產業重大科技攻關項目). The Group achieved a satisfactory result by replacing steam boilers with the heat energy technology in the drying process of all production lines. Riding on this initial success, the Group constantly carried out further improvement on the heat energy technology, demonstrating a more significant energy-saving result. Energy consumption efficiency continued to improve and achieved cost savings. Energy cost of the Group for the Year was approximately RMB138.1 million, up by 33.2% as compared to the same period last year. Such increase was similar to the Group's product volume growth and business expansion during the Year. The new energy-saving technology substituted coal with electricity, which the Group believed would reduce exhaust emissions to achieve protection to the environment.

FINANCIAL ANALYSIS

Revenue

The Group's revenue increased by 30.3% from RMB1,152.7 million in 2010 to RMB1,502.0 million in 2011, 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 3,385.1 million meters.

The increase in sales of 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 25.8% from RMB454.6 million in 2010 to RMB571.7 million in 2011. 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 RMB35.7 million due to increased production volume; (ii) water, electricity and coal expenses increased by RMB34.4 million; and (iii) the direct labor expenses increased by RMB29.2 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 3,551.4 million meters and the Group had maintained an equipment utilization rate of 93.3%.

Gross profit

Gross profit increased by 33.3% from RMB698.1 million in 2010 to RMB930.3 million in 2011. Due to the Group's dedicated efforts in enhancing the efficiency of existing production lines to cater for the rising market demand, optimizing its energy saving facilities for cost-saving and leveraging on its R&D expertise to enrich product portfolio and maintain profitability. The gross profit margin of the Group increased from 60.6% in 2010 to 61.9% in 2011.

Other income and gains

Other income and gains increased significantly from RMB49.1 million in 2010 to RMB62.6 million in 2011, which was mainly attributable to the increase in interest income from bank deposit and PRC government treasury bonds.

Selling and distribution costs

Selling and distribution costs increased by 54.4% from RMB14.6 million in 2010 to RMB22.5 million in 2011. Selling and distribution costs accounted for 1.3% of the revenue in 2010 and 1.5% of the revenue in 2011. The increase in the selling and distribution expenses was mainly due to the increase in transportation expenses from RMB8.0 million in 2010 to RMB11.1 million in 2011.

Administrative expenses

Administrative expenses increased by 49.8% from RMB68.0 million in 2010 to RMB101.9 million in 2011. The increase in administrative expenses was mainly caused by the increase in staff salary and expense in staff 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 Company'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. In addition, the Group had incurred a total of RMB19.0 million for the City Construction Tax, Education Surcharge and Local Education Surcharge in the PRC during the Year. The City Construction Tax, Education Surcharge and Local Education Surcharge were newly introduced in the PRC in December 2010.

Finance costs

Finance costs decreased from a net gain of RMB252,000 in 2010 to a net charge of RMB289,000 in 2011. Interest on bank loans of RMB3.6 million incurred was offset by the government grants of RMB3.3 million received during the Year.

Income tax expenses

Income tax expenses were RMB163.5 million in 2011, as compared to RMB134.5 million in 2010. The Company's major operating subsidiary, Wuzhou Shenguan, enjoyed a preferential tax treatment because of its geographical presence in Western China, which resulted that the applicable tax rate for Wuzhou Shenguan was 15%.

The Group's effective tax rates were charged at 20.2% and 18.8% to the profit before tax in 2010 and 2011, respectively. The difference between the effective tax rates and 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.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests decreased by 9.1% from RMB16.8 million in 2010 to RMB15.3 million in 2011. Despite the increase in profit after tax, the Group acquried 3% non-controlling interest in Wuzhou Shenguan during the Year. As a result, profit attributable to non-controlling interests decreased.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 34.3% from RMB513.5 million in 2010 to RMB689.3 million in 2011. The Group's net profit margin attributable to owners of the Company increased from 44.5% in 2010 to 45.9% in 2011.

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 2011, the cash and cash equivalents amounted to RMB487.8 million, representing a decrease of RMB299.9 million as compared to the end of 2010. Among the cash and bank deposits balance, 97.6% was denominated in Renminbi and the remaining 2.4% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2011, the total liabilities of the Group amounted to RMB286.9 million (31 December 2010: RMB335.2 million), of which RMB20.0 million was long-term bank borrowings due in the second to third years, inclusive. As at 31 December 2011, the Group had short-term bank borrowings of RMB43.0 million due within one year. All of the Group's bank borrowings were subject to interest rates currently ranging from 7.32% to 8.90% per annum and were denominated in Renminbi.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of RMB424.8 million as at 31 December 2011, together with held-to-maturity investments of RMB204.7 million. The debt-to-equity ratio was 3.3% as at 31 December 2011 (31 December 2010: 7.5%). Debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

In 2011, RMB696.6 million and RMB206.2 million were generated from the operating activities and investing activities respectively, while the net amount spent on financing activities was RMB717.4 million. Net cash inflows from investing activities were mainly related to the decrease in non-pledged time deposits with original maturity of more than three months when acquired which was offset by the expansion of production facilities, purchase of property, plant and equipment and net purchase of principal-protected investments of RMB50.0 million. Non-pledged time deposits with original maturity of more than three months when acquired amounted to RMB50.3 million as at 31 December 2011. Net cash outflows from financing activities were mainly related to the distribution of a final dividend for 2010 and an interim dividend for the six months ended 30 June 2011 by the Company, bank loans borrowed and repaid, and the acquisition of non-controlling interests.

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 2011 amounted to RMB235.3 million and capital commitments as at 31 December 2011 amounted to RMB261.4 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and equipment for the new production facilities.

For 2012, the Company has budgeted to spend around RMB300 million to 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 2011, the Group's short term bank borrowings were secured by bills receivable of RMB42,971,000.

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 2011, approximately RMB14.1 million of the proceeds was used for the repayment of the outstanding amount due to shareholders, approximately RMB133.3 million of the proceeds was used for the repayment of bank borrowings, and approximately RMB628.7 million of the proceeds was used for the development and expansion of the production facilities in Wuzhou, the PRC. The proceeds were applied in accordance with the proposed applications set forth in the prospectus of the Company dated 30 September 2009.

The unutilized proceeds had been placed with licensed banks in Hong Kong and the PRC as interest bearing deposits as at 31 December 2011.

Contingent liabilities

As at 31 December 2011 and up to the date of this report, the Group was not aware of any material contingent liabilities.

Acquisitions, Disposals and Significant Investment

On 4 March 2011, 11 March 2011 and 10 November 2011, the Group (through Wuzhou Shenguan) acquired the 3.45% one-year term certificate treasury bonds the 3.45% one-year term certificate treasury bonds and the 5.58% three-year term certificate treasury bonds issued by the Ministry of Finance of the PRC in the aggregate principle amount of RMB110,000,000, RMB40,000,000 and RMB50,000,000, respectively. For details of the treasury bonds acquisitions, please refer to the announcements of the Company dated 4 March 2011, 13 March 2011 and 10 November 2011, respectively.

On 1 June 2011, Forever Gather Limited (冠恒有限公司) ("Forever Gather", an indirectly wholly-owned subsidiary of the Company) entered into an equity transfer agreement (the "Agreement") with the shareholders of 梧州市先盛膠原蛋白技術諮詢服務有限公司 (Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited) ("Wuzhou Xiansheng") pursuant to which Forever Gather conditionally agreed to acquire the entire equity interests in Wuzhou Xiansheng held by the shareholders of Wuzhou Xiansheng at the consideration of RMB372,012,000. Wuzhou Xiansheng was owned as to 36.80% by Mr. He Xiangji, 35.60% by Ms. Zhou Yaxian ("Ms. Zhou"), 4.60% by Mr. Ru Xiquan ("Mr. Ru"), 4.60% by Ms. Cai Yueqing ("Ms. Cai"), 4.60% by Mr. Shi Guicheng ("Ms. Shi"), 4.60% by Mr. Mo Yunxi, 4.60% by Mr. Li Baowei and 4.60% by Ms. Li Ying. Ms. Zhou is the chairman of the Board (the "Chairman"), an executive Director and a controlling shareholder of the Company. Mr. Ru, Ms. Cai and Mr. Shi are executive Directors. Thus, the Agreement constituted a connected transaction for the Company. All conditions under the Agreement had been fulfilled and the transactions under the Agreement had been completed as at the date of this annual report. For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 1 June 2011.

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

Human resources

As at 31 December 2011, the Group had approximately 3,500 employees with a total remuneration of RMB135.5 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, the Group offers competitive remuneration packages, with reference to market conditions and individual qualifications and experiences.

Some of the Directors and senior management were granted share options under the Company's share option scheme in 2009. 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.

BONUS ISSUE

On 13 May 2011, the Board resolved to recommend a bonus issue (the "Bonus Issue"), being a bonus issue of new shares on the basis of ten bonus shares for every ten existing shares, to the shareholders whose names appear on the register of members of the Company on 15 June 2011. The Bonus Issue was approved at the extraordinary general meeting held on 15 June 2011 and was completed during the Year. An amount of HK$16,610,600 standing to the credit of the share premium account of the Company had been capitalised and applied in making payment in full, at par value, for the 1,661,060,000 bonus shares issued under the Bonus Issue. For details of the Bonus Issue, please refer to the announcements of the Company dated 13 May 2011 and 15 June 2011 and the circular of the Company dated 27 May 2011.

PROSPECTS

Looking ahead, the Group remains strongly optimistic towards the vast potential of the collagen sausage casing market in the PRC. Although consumer confidence on meat products might be harmed in the short term following recent incidents on meat quality in the PRC market, it is expected that confidence will return, along with the sustained rapid growth of the PRC economy and consumption needs in 2012. Improving living standards and changing lifestyle of the PRC urban population will continue to drive the strong demand for processed meat products and substitution for natural sausage casings. Riding on its sound business foundation, the Group will endeavor to sustain its leading market position in the collagen sausage casings industry in an attempt to capture growing business opportunities.

In 2012, the Group plans to increase the production capacity by 20%-25% with a similar utilization rate as in 2011. While focusing on newly added production lines, the Group will also expand the collagen processing plant of Sifu and cold storage facilities.

The Group will continue to capitalize on the advantage it has built on technological innovation. In 2012, the Group will speed up product development, improve and perfect the workmanship in the production process to meet market demand. With the approval of relevant licenses by government authorities expected to be granted in 2012, the Group is positioned to officially export Muslim sausage casings to overseas markets in 2012 and the contributions will be gradually reflected. The Group aims to enhance its market competitiveness through enriching its product portfolio. Meanwhile, the Group will strengthen the management of its automation process, and the research and development for the mechanization of production equipment. The Group will also strengthen the innovation capabilities of its technology center and examination center and increase protection of intellectual property.

As a member of the food industry, the Group sees stable product quality as its prime task and seeks to provide a stable and enhanced product quality through continual upgrade of its standards and benchmarks in key control points of its production process and stringent production controls. The Group dedicates to assure its customers of high quality sausage casings products.

As its business expands, the Group will continue to expand its operations with collagen sausage casing products as its core business so as to maintain its leading position to create maximum returns to its customers and shareholders.

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with 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 with 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 15 meetings and the individual attendance of the Directors at the Board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	14/15
Ms. Cai Yueqing	15/15
Mr. Shi Guicheng	15/15
Mr. Ru Xiquan	15/15
Mr. Low Jee Keong	15/15
Mr. Tsui Yung Kwok	15/15
Mr. Meng Qinguo	15/15
Mr. Yang Xiaohu	14/15

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

Under code provision A.2.1 of the Code, the roles of chairman and chief executive 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". 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. 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. The Company will make timely announcement if the chief executive 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 2011 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 (the "Articles") 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.

Ms. Zhou Yaxian, Ms. Cai Yueqing , Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Low Jee Keong 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 (the "Audit Committee") on 19 September 2009 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu. Mr. Tsui Yung Kwok who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee. The Audit Committee shall meet at least twice a year.

The written terms of reference of the Audit Committee adopted by the Board are in line with the code provisions of the Code and are available on the Company and The Stock Exchange's websites.

During the Year, the Audit Committee had reviewed the 2010 final results, the 2011 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	3/3

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	967
Audit services	1,980
	2,947

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") pursuant to a resolution of the Directors passed on 19 September 2009. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of the Board's succession, and to ensure that the candidates to be nominated as Directors are experienced, high caliber individuals. The Nomination Committee consists of Ms. Zhou 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 written terms of reference of the Nomination Committee adopted by the Board are in line with the code provisions of the Code and are available on the Company and The Stock Exchange's websites.

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 a remuneration committee (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 on the Company and The Stock Exchange's websites.

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

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

At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages for the years 2010 and 2011 and performance of the Directors for 2010.

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 2011. The auditors to the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2011. 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 forthcoming annual general meeting of the Company will be held on 16 May 2012.

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.

Ms. Zhou Yaxian
Chairman and President

Aged 52, 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 32 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

Aged 56, Ms. Cai is primarily responsible for the Group's production management. She has nearly 19 years of experience in the collagen sausage casing industry. Ms. Cai graduated at Wuzhou Branch of Guangxi University (廣西大學梧州分校) and attained the Professional Qualification Certificate in Quality Management in January 1998. Ms. Cai joined Wuzhou Protein Factory as the Supervisor of the Quality Control Office in 1992. She was appointed as the Deputy Head of Wuzhou Protein Factory in 1994 and has been the Deputy General Manager of Wuzhou Shenguan since 2004, responsible for production management and quality control. She was appointed as a Director on 19 September 2009.

Mr. Shi Guicheng

Vice President

Aged 48, 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 19 years of experience in the collagen sausage casing industry. Mr. Shi graduated from Guangxi Central Radio and TV University (廣西廣播電視大學) and attained the Professional Qualification Graduation Certificate in Mechanical Production in July 1987. Mr. Shi joined Wuzhou Protein Factory as the Head of Technology in 1993. He was appointed as the Deputy Head of Wuzhou Protein Factory in 2001 and has been the Deputy General Manager of Wuzhou Shenguan since 2004, responsible for machinery and equipment management, production safety and environmental protection. He was appointed as a Director on 19 September 2009.

Mr. Ru Xiquan

Vice President

Aged 49, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 21 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 46, 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 19 years of experience in the collagen sausage casing industry. Before founding the Group, Mr. Low, through LJK Frozen SDN. BHD. ("LJK") (formerly known as Exceltech Enterprise SDN. BHD.), 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 43, 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 18 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 54, 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 was 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) until 29 February 2012, and he had been appointed as special legal consultant since 1 March 2012, 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 37, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 13 years of experience in the financial industry. He joined Everbright Securities Company Limited (光大證券有限公司), focusing on investment banking in 1998 and is currently the General Manager of the Investment Banking Division of the Shenzhen Second Branch of Everbright Securities Company Limited (光大證券有限公司). He was appointed as a Director on 19 September 2009.

SENIOR MANAGEMENT

Mr. Mo Yunxi
Vice President

Aged 43, Mr. Mo is primarily responsible for the Group's product and technology developments. He has long been engaged in product development and has nearly 19 years of experience in the collagen sausage casing industry. Mr. Mo graduated from Tianjin College of Commerce (天津商學院), majoring in Food Engineering in July 1990. Mr. Mo joined Wuzhou Protein Factory in 1993 and he has been the Deputy General Manager of Wuzhou Shenguan since 2004. Mr. Mo is a senior engineer in food engineering. He was awarded the "First Prize in Wuzhou Science and Technology Advancement" (梧州市科學技術進步一等獎) and the "First Prize in Guangxi Outstanding Achievement on New Products" (廣西新產品優秀成果一等獎) by the Wuzhou Government and The People's Government of Guangxi, respectively, in 2008.

Mr. Wen Jinpei
Vice President

Aged 50, 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.

Mr. Ng Yuk Yeung
Financial Controller

Aged 38, 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 16 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 ended 31 December 2011.

GROUP REORGANISATION

The Company is a limited liability company incorporated in the Cayman Islands on 24 February 2009. Pursuant to a group reorganisation in preparation for listing on The Stock Exchange, the Company had become the holding company of the subsidiaries now comprising the Group following the Group's reorganisation as set forth in the Company's listing prospectus dated 30 September 2009 (the "Prospectus"). Shares in the Company had been listed on The Stock Exchange since 13 October 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 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 101.

An interim dividend of HK4.3 cents per ordinary share was paid on 27 September 2011. The directors recommend the payment of a final dividend of HK6.0 cents per ordinary share in respect of the year to shareholders on the register of members on 24 May 2012. 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 5 June 2012.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 16 May 2012 (Wednesday), the register of members of the Company will be closed from 11 May 2012 (Friday) to 16 May 2012 (Wednesday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 10 May 2012 (Thursday). For determining entitlement to the final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 22 May 2012 (Tuesday) to 24 May 2012 (Thursday), both dates inclusive. The record date will be 24 May 2012. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 21 May 2012 (Monday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final dividend (if approved 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 the dates and times stated above respectively.

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, is set out on page 102. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

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 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 ended 31 December 2011, the profit attributable to owners of the Company amounted to RMB689,319,000. 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 2011, the Company had distributable reserves amounting to RMB1,399,951,000, of which RMB161,973,000 has been proposed as a final dividend for the year, calculated in accordance with statutory provisions applicable in Cayman Islands.

Details of movements in the reserves of the Company and the Group during the year are set out in note 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 RMB1,639,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 46.2% of the total sales for the year and sales to the largest customer included therein amounted to 33.2%. 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 *(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

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 of the Company 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 Stock Exchange 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 13 October 2011, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to its Articles, 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 2011, 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)*	2,135,166,000(L)	64.27
Mr. Low Jee Keong ("Mr. Low")	Interest of controlled corporation *(Note 4)*	78,936,000(L)	2.38
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	400,000(L)	0.01
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	400,000(L)	0.01
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	400,000(L)	0.01

2. INTERESTS AND SHORT POSITION IN THE UNDERLYING SHARES

Name of Director	Capacity/Nature	No. of Shares	Approximate percentage of issued share capital of the Company
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	1,600,000(L)	0.05
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	1,600,000(L)	0.05
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	1,600,000(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 2)*	RMB13,800,000	3.00
Mr. Low	Rich Top Future	Interest of controlled corporation *(Note 4)*	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. 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 RMB13,800,000 to the total registered capital of Wuzhou Shenguan, representing approximately 3% of the total registered capital.

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. Mr. Low holds 100% interest in Wealthy Safe Management Limited ("Wealthy Safe"), which holds 78,936,000 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 2011, 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 2011, 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	1,883,426,000(L)	56.69
Xian Sheng	Beneficial owner	248,040,000(L)	7.47
Glories Site	Interest of controlled corporation *(Note 2)*	1,883,426,000(L)	56.69
Hong Kong Shenguan	Interest of controlled corporation *(Note 3)*	2,135,166,000(L)	64.27
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse *(Note 4)*	2,135,166,000(L)	64.27

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 2011, 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 2011, 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 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 317,880,000 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:

	Number of share options#									
Name or category of participant	At 1 January 2011	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	At 31 December 2011	Date of grant of share options	Vesting period of share options*	End of exercise period	Adjusted exercise price of share options** HK$ per share	Adjusted share price as at the date of grant of the share options*** HK$ per share
Directors										
Ms. Cai Yueqing	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,600,000	–	–	–	1,600,000					
Mr. Shi Guicheng	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,600,000	–	–	–	1,600,000					
Mr. Ru Xiquan	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,600,000	–	–	–	1,600,000					
	4,800,000	–	–	–	4,800,000					
Other employees										
In aggregate	280,000	–	–	–	280,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2010	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	5,080,000	–	–	–	5,080,000					
	9,880,000	–	–	–	9,880,000					

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

The number of options has been adjusted to reflect the bonus issue during the year.

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

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The price shown above have been adjusted to reflect the bonus issue during the year.*

*** *The adjusted 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 adjusted to reflect the bonus issues during the years.*

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 of the Directors 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.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

CONNECTED TRANSACTIONS

During the Year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

On 1 June 2011, Forever Gather Limited (冠恒有限公司) ("Forever Gather") (an indirectly wholly-owned subsidiary of the Company) entered into an equity transfer agreement with 梧州市先盛膠原蛋白技術諮詢服務有限公司 (Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited) ("Wuzhou Xiansheng"), pursuant to which Forever Gather agreed to acquire the entire equity interest in Wuzhou Xiansheng from Mr. He Xiangji, Ms. Zhou Yaxian ("Ms. Zhou"), Mr. Ru Xiquan ("Mr. Ru"), Ms. Cai Yueqing ("Ms. Cai"), Mr. Shi Guicheng ("Mr. Shi"), Mr. Mo Yunxi, Mr. Li Baowei and Ms. Li Ying, at the consideration of RMB372,011,508. Ms. Zhou is the chairman of the Board, an executive Director and a controlling shareholder of the Company whereas Mr. Ru, Ms. Cai and Mr. Shi are executive Directors of the Company. Therefore, the agreement constitutes a connected transaction for the Company. For details, please refer to the announcement of the Company dated 1 June 2011.

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 Trademark Printing Material Co., Ltd. ("Wuzhou Junye Printing Material"), as seller, entered into a sale and purchase agreement for the sales of inner packaging materials for a term ended on 31 December 2011. The purchases by the Group from Wuzhou Junye Printing Material under the said agreement for the Year amounted to RMB18,147,000 and the annual cap set in the said agreement for the Year is RMB24,000,000.

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 LJK Frozen SDN. BHD. (formerly known as Exceltech Enterprise SDN. BHD.)

On 19 September 2009, Exceltech Enterprise SDN. BHD. ("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 RMB5,063,000 and the annual cap set in the said agreement for the Year is RMB7,600,000.

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

(iii) Transactions with C.T. Company

On 19 September 2009, C.T. Company, as purchaser, and Wuzhou Shenguan, as seller, entered into a sale and purchase agreement for the sales of the Group's products for a term ending on 31 December 2011. The sales from the Group to C.T. Company under the said agreement for the Year amounted to RMB4,526,000 and the annual cap set in the said agreement for the Year is RMB6,000,000.

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 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 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.

On 2 December 2011, the Group (through Wuzhou Shenguan) entered into (i) a sale and purchase agreement with LJK Frozen SDN. BHD. ("LJK") for the sales of the Group's products (the "LJK Sale and Purchase Agreement"); (ii) a sale and purchase agreement with Ample Company LLC ("Ample") for the sales of the Group's products (the "Ample Sale and Purchase Agreement"); (iii) a sale and purchase agreement with 梧州駿業商標印刷有限公司 (Wuzhou Junye Trademark Printing Material Co., Ltd.) ("Wuzhou Junye Printing Material") for the sales of inner packaging materials (the "New Junye Sale and Purchase Agreement"); and (iv) a sale and purchase agreement with 梧州市中柏包裝有限公司 (Wuzhou Zhongbo Packaging Co., Ltd.) ("Wuzhou Zhongbo Packaging") for the sales of inner packaging materials (the "Zhongbo Sale and Purchase Agreement") for a term of three years from 1 January 2012 and ending on 31 December 2014.

The annual consideration payable under the LJK Sale and Purchase Agreement for each of the three years ended 31 December 2014 will not exceed US$1,370,000, US$2,060,000 and US$3,090,000, respectively. The annual consideration payable under the Ample Sale and Purchase Agreement for each of the three years ended 31 December 2014 will not exceed US$1,000,000, US$1,500,000 and US$2,200,000, respectively. The annual consideration payable under the New Junye Sale and Purchase Agreement for each of the three years ended 31 December 2014 will not exceed RMB26,500,000, RMB35,250,000 and RMB45,820,000, respectively. The annual consideration payable under the Zhongbo Sale and Purchase Agreement for each of the three years ended 31 December 2014 will not exceed RMB6,500,000, RMB8,650,000 and RMB11,240,000, respectively.

LJK is a limited liability company incorporated in Malaysia and is owned by Mr. Low, a Director, as to 80% and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Ample is a limited liability company incorporated in the U.S. and is owned by Mr. Wei Cheng, a director of Wuzhou Shenguan, as to 50% and by Mr. Wei Cheng's wife as to 50%. Therefore, Ample is a connected person of the Company under Chapter 14A of the Listing Rules. Wuzhou Junye Printing Material is owned by Mr. Sha Shuming (沙曙明先生) ("Mr. Sha"), the spouse of Ms. Zhou, as to 90% and by Mr. Sha Junqi (沙俊奇先生), the son of Mr. Sha and Ms. Zhou, as to 10%. Ms. Zhou is the Chairman of the Company, an executive Director and one of the controlling shareholders of the Company. Wuzhou Junye Printing Material is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Wuzhou Zhongbo Packaging is owned by Mr. Sha as to 60% and by Mr. Sha Junqi (沙俊奇先生), as to 40%. Wuzhou Zhongbo Packaging is therefore a connected person of the Company under Chapter 14A of the Listing Rules. All the transactions mentioned above constituted continuing connected transactions of the Company. For details, please refer to the announcement of the Company dated 2 December 2011.

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 for the year ended 31 December 2011, save for the exceptions explained in the Corporate Governance Report in this report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The financial statements for the year ended 31 December 2011 have been audited by the Company's auditors, Ernst & Young (who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting).

ON BEHALF OF THE BOARD

Zhou Yaxian
Chairman

Hong Kong
19 March 2012

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 101, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

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 2011, 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
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

19 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	4	**1,501,985**	1,152,689
Cost of sales		**(571,709)**	(454,616)
Gross profit		**930,276**	698,073
Other income and gains	4	**62,578**	49,118
Selling and distribution costs		**(22,533)**	(14,595)
Administrative expenses		**(101,911)**	(68,026)
Finance costs, net	5	**(289)**	252
PROFIT BEFORE TAX	6	**868,121**	664,822
Income tax expense	9	**(163,490)**	(134,520)
PROFIT FOR THE YEAR		**704,631**	530,302
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(35,163)**	(26,762)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(35,163)**	(26,762)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**669,468**	503,540
Profit attributable to:			
Owners of the Company	10	**689,319**	513,458
Non-controlling interests		**15,312**	16,844
		704,631	530,302
Total comprehensive income attributable to:			
Owners of the Company	10	**654,156**	486,696
Non-controlling interests		**15,312**	16,844
		669,468	503,540
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		(Restated)
Basic (RMB cents per share)		**20.7**	15.5
Diluted (RMB cents per share)		**20.7**	15.4

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

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**922,526**	722,421
Prepaid land lease payments	14	**105,646**	107,732
Patent	15	**285**	1,144
Available-for-sale investment	17	**200**	200
Held-to-maturity investments	18	**50,403**	–
Deferred tax assets	19	**14,074**	8,790
Long term prepayments		**10,136**	16,343
Total non-current assets		**1,103,270**	856,630
CURRENT ASSETS			
Inventories	20	**182,342**	118,849
Trade and bills receivables	21	**166,226**	137,210
Prepayments, deposits and other receivables	22	**48,439**	97,364
Principal-protected investments	23	**50,000**	–
Held-to-maturity investments	18	**154,329**	201,965
Cash and cash equivalents	24	**487,789**	787,736
Total current assets		**1,089,125**	1,343,124
CURRENT LIABILITIES			
Trade payables	25	**52,434**	26,357
Other payables and accruals	26	**123,740**	119,631
Interest-bearing bank borrowings	27	**42,971**	–
Tax payable		**18,196**	31,800
Deferred income		**–**	3,305
Total current liabilities		**237,341**	181,093
NET CURRENT ASSETS		**851,784**	1,162,031
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,955,054**	2,018,661
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**20,000**	140,000
Deferred income		**28,952**	14,061
Deferred tax liabilities	19	**630**	–
Total non-current liabilities		**49,582**	154,061
Net assets		**1,905,472**	1,864,600

	Notes	2011 RMB'000	2010 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**28,568**	14,633
Reserves	30(a)	**1,876,904**	1,823,046
		1,905,472	1,837,679
Non-controlling interests		**–**	26,921
Total equity		**1,905,472**	1,864,600

Zhou Yaxian
Director

Ru Xiquan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		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 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(a)	9	5,476	–	–	–	(1,491)	–	–	–	3,994	–	3,994
Equity-settled share option arrangement	29	–	–	–	–	–	3,484	–	–	–	3,484	–	3,484
Transfer from retained profits		–	–	–	56,120	–	–	–	–	(56,120)	–	–	–
Dividends paid to then 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

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		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 2011		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
Profit for the year		–	–	–	–	–	–	–	–	689,319	689,319	15,312	704,631
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(35,163)	–	–	(35,163)	–	(35,163)
Total comprehensive income for the year		–	–	–	–	–	–	(35,163)	–	689,319	654,156	15,312	669,468
Bonus issue	28(b)	13,935	(13,935)	–	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangement	29	–	–	–	–	–	1,908	–	–	–	1,908	–	1,908
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(329,677)	–	(329,677)	(42,233)	(371,910)
Transfer from retained profits		–	–	–	75,154	–	–	–	–	(75,154)	–	–	–
Final 2010 dividend		–	–	–	–	–	–	–	–	(113,079)	(113,079)	–	(113,079)
Special 2010 dividend		–	–	–	–	–	–	–	–	(27,955)	(27,955)	–	(27,955)
Interim 2011 dividend	11	–	–	–	–	–	–	–	–	(117,560)	(117,560)	–	(117,560)
At 31 December 2011		28,568	1,167,543	59	187,996	4,758	4,743	(62,036)	(264,343)	838,184	1,905,472	–	1,905,472

* *These reserve accounts comprise the consolidated reserves of RMB1,876,904,000 (2010: RMB1,823,046,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		868,121	664,822
Adjustments for:			
Interest on bank loans		3,594	7,443
Bank interest income		(14,687)	(14,048)
Interest income from held-to-maturity investments		(7,967)	(1,965)
Gain on disposal of financial asset at fair value through profit or loss		(23)	–
Loss on disposal of items of property, plant and equipment		1,420	691
Depreciation		42,687	31,808
Amortisation of prepaid land lease payments		2,086	1,216
Amortisation of patent		859	859
Government grants released		(10,229)	(11,839)
Equity-settled share option expense	29	1,908	3,484
Exchange gain on intercompany loans		(35,025)	(25,834)
		852,744	656,637
Increase in inventories		(63,493)	(71,987)
Increase in trade and bills receivables		(29,016)	(59,214)
Decrease/(increase) in prepayments, deposits and other receivables		44,512	(52,397)
Increase in trade payables		26,077	2,130
Increase in other payables and accruals		6,580	4,500
Receipt of government grants		20,225	18,034
Cash generated from operations		857,629	497,703
Interest received		20,690	6,806
PRC profits tax refunded		–	1,168
PRC profits tax paid		(181,741)	(119,055)
Net cash flows from operating activities		696,578	386,622
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(235,274)	(265,285)
Proceeds from disposal of items of property, plant and equipment		1,096	7
Prepayments of land lease payments		–	(63,455)
Purchase of available-for-sale investment		–	(200)
Purchase of held-to-maturity investments		(200,000)	(200,000)
Proceeds from disposal of held-to-maturity investments		205,200	–
Purchase of financial assets at fair value through profit or loss		(60,000)	–
Proceeds from disposal of financial asset at fair value through profit or loss		10,023	–
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		485,196	(451,950)
Net cash flows from/(used in) investing activities		206,241	(980,883)

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of non-controlling interests	34(b)	**(371,910)**	–
Proceeds from the exercise of share options	28	**–**	3,994
New bank borrowings		**62,971**	180,000
Repayment of bank loans		**(140,000)**	(114,900)
Interest paid		**(3,594)**	(7,443)
Dividends paid		**(258,594)**	(153,136)
Dividends paid to then non-controlling shareholders		**(6,300)**	(5,400)
Net cash flows used in financing activities		**(717,427)**	(96,885)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**185,392**	(691,146)
Cash and cash equivalents at beginning of year		**252,279**	944,355
Effect of foreign exchange rate changes, net		**(143)**	(930)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**437,528**	252,279
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**430,996**	245,673
Non-pledged time deposits with original maturity of less than three months when acquired		**6,532**	6,606
Cash and cash equivalents as stated in the consolidated statement of cash flows		**437,528**	252,279
Non-pledged time deposits with original maturity of over three months when acquired		**50,261**	535,457
Cash and cash equivalents as stated in the consolidated statement of financial position		**487,789**	787,736

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**841,018**	1,143,445
Total non-current assets		**841,018**	1,143,445
CURRENT ASSETS			
Amounts due from subsidiaries	16	**647,635**	379,426
Prepayments, deposits and other receivables	22	**463**	224
Bank balances	24	**286**	4,121
Total current assets		**648,384**	383,771
CURRENT LIABILITIES			
Amount due to a subsidiary	16	**1,699**	1,781
Other payables and accruals	26	**1,395**	2,398
Total current liabilities		**3,094**	4,179
NET CURRENT ASSETS		**645,290**	379,592
Net assets		**1,486,308**	1,523,037
EQUITY			
Issued capital	28	**28,568**	14,633
Reserves	30(b)	**1,457,740**	1,508,404
Total equity		**1,486,308**	1,523,037

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.

In the opinion of the 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries 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.

Total comprehensive income within a subsidiary is 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.

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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*
HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 34 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment 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).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All 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.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(b) (Continued)

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

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 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*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Asset*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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 7 Amendments issued in December 2011 issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013.

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. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the 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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*. HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

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

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), and HKAS 28 (2011) from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of “currently has a legally enforceable right of set-off” and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

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 is a person or a close member of that person's family and that person

(i) has controls or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

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

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (Continued)

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, held-to-maturity investments, 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 transaction cost, expect in the case of financial assets recorded not at fair value through profit or loss.

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, an available-for-sale investment, held-to-maturity investments, principal-protected investments, 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 net 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.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only it the criteria under HKAS 39 are satisfied.

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, in rare circumstances, 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. 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 as these instruments cannot be reclassified after initial recognition.

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. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

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 them to maturity. Held-to-maturity investments 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 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.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 and all collateral has been realised or has been transferred to the Group.

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

Assets carried at cost

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

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.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

The subsequent 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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

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 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.

2.4 Summary of Significant Accounting Policies (Continued)

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. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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:

- when 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, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- when 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.

2.4 Summary of Significant Accounting Policies (Continued)

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; and

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

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.

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payment transactions (Continued)

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.

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

Other employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement 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.

2.4 Summary of Significant Accounting Policies (Continued)

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 expensed 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 arising on settlement or translation monetary items are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain group companies are currencies other than the presentation currency of the Company. 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 certain group companies with functional currency other than RMB 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 described 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.

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 assets. 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 the 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.

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

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 2011, revenue generated from a single (2010: single) customer of the Group amounting to RMB498,572,000 (2010: RMB467,377,000) 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	
	2011	2010
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,501,985**	1,152,689
Other income, net		
Bank interest income	**14,687**	14,048
Interest income from held-to-maturity investments	**7,967**	1,965
Sales of dried meat products	**737**	1,143
Rental income	**–**	5
Reversal of impairment of trade and other receivables, net	**–**	3,181
Government grants*	**6,924**	4,144
Others	**316**	556
	30,631	25,042
Gains		
Foreign exchange gains, net	**31,924**	24,076
Gain on disposal of financial asset through profit or loss	**23**	–
	31,947	24,076
	62,578	49,118

* *Various government grants have been received in respect of improvements made to plant and machinery and the acquisition of certain land leases, 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 2011.*

5. Finance Costs

	Group	
	2011	2010
	RMB'000	*RMB'000*
Interest on bank loans	**3,594**	7,443
Less: Government grants*	**(3,305)**	(7,695)
	289	(252)

* *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 2011.*

6. Profit Before Tax

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

	Notes	**2011** ***RMB'000***	2010 *RMB'000*
Employee benefit expense (including directors' remuneration *(note 7)*:			
Wages and salaries		**135,516**	111,290
Equity-settled share option expense	29	**1,908**	3,484
Retirement benefit contributions		**22,748**	16,351
		160,172	131,125
Auditors' remuneration		**1,980**	1,828
Cost of inventories sold		**217,719**	168,288
Depreciation	13	**42,687**	31,808
Amortisation of land lease payments	14	**2,086**	1,216
Amortisation of a patent*	15	**859**	859
Research and development costs		**158,521**	87,054
Minimum lease payments under operating leases in respect of buildings		**819**	750
Loss on disposal of items of property, plant and equipment		**1,420**	691
Impairment of inventories		**6,697**	2,188
Impairment/(reversal of impairment) of trade receivables	21	**148**	(1,635)
Reversal of impairment of other receivables, net		**–**	(1,546)
Foreign exchange differences, net		**(31,924)**	(24,076)

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

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	
	2011	2010
	RMB'000	*RMB'000*
Fees	**850**	821
Other emoluments:		
Salaries, allowances and benefits in kind	**1,978**	2,048
Discretionary performance-related bonuses	**7,998**	7,723
Equity-settled share option expense	**963**	1,767
Retirement benefit contributions	**12**	12
	10,951	11,550
	11,801	12,371

In prior years, 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 these 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:

	2011	2010
	RMB'000	*RMB'000*
Mr. Tsui Yung Kwok	**170**	157
Mr. Meng Qinguo	**170**	157
Mr. Yang Xiaohu	**170**	157
	510	471

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

7. Directors' Remuneration (Continued)

(b) Executive directors and a non-executive director

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary performance-related bonuses *RMB'000*	Equity-settled share option expense *RMB'000*	Retirement benefit contributions *RMB'000*	Total remuneration *RMB'000*
2011						
Executive directors:						
Ms. Zhou Yaxian	68	954	3,636	–	4	4,662
Ms. Cai Yueqing	68	340	1,454	321	–	2,183
Mr. Shi Guicheng	68	342	1,454	321	4	2,189
Mr. Ru Xiquan	68	342	1,454	321	4	2,189
	272	1,978	7,998	963	12	11,223
Non-executive director:						
Mr. Low Jee Keong	68	–	–	–	–	68
	340	1,978	7,998	963	12	11,291

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2010: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2010: one) non-director, highest paid employee for the year are as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**402**	414
Performance-related bonuses	**1,455**	1,404
Equity-settled share option expense	**321**	589
Pension scheme contributions	**4**	3
	2,182	2,410

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

	Number of employees	
	2011	2010
RMB2,000,001 to RMB2,500,000	**1**	1

In prior years, 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 these 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 Expense

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 2011.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") being the Company's wholly-owned 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).

	2011 *RMB'000*	2010 *RMB'000*
Group:		
Current tax charge for the year		
– PRC	**166,031**	132,622
Underprovision/(overprovision) in prior year	**2,113**	(1,575)
Deferred tax *(note 19)*	**(4,654)**	3,473
Total tax charge for the year	**163,490**	134,520

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 – 2011

	Mainland China		**Hong Kong**		**Total**	
	RMB'000	**%**	***RMB'000***	**%**	***RMB'000***	**%**
Profit/(loss) before tax	**868,465**		**(344)**		**868,121**	
Tax at the statutory tax rate	**217,115**	**25.0**	**(57)**	**16.5**	**217,058**	**25.0**
Lower tax rate for specific provinces or enacted by local authority	**(86,952)**		**–**		**(86,952)**	
Adjustments in respect of current tax of previous period	**2,113**		**–**		**2,113**	
Expenses not deductible for tax	**3,557**		**866**		**4,423**	
Income not subject to tax	**(2,631)**		**(809)**		**(3,440)**	
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**30,000**		**–**		**30,000**	
Tax loss not recognised	**288**		**–**		**288**	
Tax charge at the Group's effective rate	**163,490**	**18.8**	**–**	**–**	**163,490**	**18.8**

9. Income Tax Expense (Continued)

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

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 includes a profit of RMB285,439,000 (2010: RMB270,822,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. Dividends

	2011	2010
	RMB'000	*RMB'000*
Interim dividend		
– HK4.3 cents (2010: HK3.0 cents, as restated) per ordinary share	**117,560**	85,841
Final dividend proposed subsequent to the reporting period		
– HK6.0 cents (2010: HK4.0 cents, as restated) per ordinary share	**161,973**	113,079
Special dividend		
– Nil (2010: HK1.0 cent, as restated) per ordinary share	**–**	27,955
	279,533	226,875

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

The dividend per ordinary share amounts have been adjusted to reflect the bonus issue which took place on 20 June 2011.

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 2011 is based on the profit for the year attributable to ordinary owners of the Company of RMB689,319,000 (2010: RMB513,458,000), and the weighted average number of ordinary shares of 3,322,120,000 (2010: 3,320,372,000, as restated) in issue during the year ended 31 December 2011, as adjusted to reflect the bonus issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 December 2011 is based on the profit for the year attributable to ordinary owners of the Company of RMB689,319,000 (2010: RMB513,458,000). 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 2011, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 4,527,000 (2010: 5,252,000, as restated) assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares, as adjusted for the bonus issue during the year.

The weighted average numbers of ordinary shares for the years ended 31 December 2011 and 2010 have been retrospectively adjusted for the bonus issue which took place on 20 June 2011.

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 2011					
At 31 December 2010 and at 1 January 2011:					
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
At 1 January 2011, net of accumulated depreciation	159,633	400,736	12,790	149,262	722,421
Additions	3,146	17,893	1,986	222,285	245,310
Disposals	–	(1,913)	(603)	–	(2,516)
Depreciation provided during the year	(6,719)	(34,537)	(1,431)	–	(42,687)
Transfers	73,245	61,170	–	(134,415)	–
Exchange realignment	–	(2)	–	–	(2)
At 31 December 2011, net of accumulated depreciation	229,305	443,347	12,742	237,132	922,526
At 31 December 2011:					
Cost	257,938	554,510	17,044	237,132	1,066,624
Accumulated depreciation	(28,633)	(111,163)	(4,302)	–	(144,098)
Net carrying amount	229,305	443,347	12,742	237,132	922,526

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 2010					
At 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

14. Prepaid Land Lease Payments

	Group	
	2011 ***RMB'000***	2010 *RMB'000*
Carrying amount at beginning of year	**110,015**	34,109
Additions during the year	**–**	77,122
Recognised during the year	**(2,086)**	(1,216)
Carrying amount at end of year	**107,929**	110,015
Current portion included in prepayments, deposits and other receivables	**(2,283)**	(2,283)
Non-current portion	**105,646**	107,732

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

15. Patent

	Group 2011 RMB'000	2010 RMB'000
At beginning of year, net of accumulated amortisation	**1,144**	2,003
Amortisation provided during the year	**(859)**	(859)
At end of year, net of accumulated amortisation	**285**	1,144
At end of year:		
Cost	**6,867**	6,867
Accumulated amortisation	**(6,582)**	(5,723)
Net carrying amount	**285**	1,144

16. Investments in Subsidiaries

	Company 2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**158,807**	166,502
Advances to subsidiaries	**676,328**	972,728
Capital contribution in respect of employee share-based compensation	**5,883**	4,215
	841,018	1,143,445

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 RMB647,635,000 (2010: RMB379,426,000) and RMB1,699,000 (2010: RMB1,781,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

16. Investments in Subsidiaries (Continued)

Particulars of subsidiaries at 31 December 2011 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued/registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Excel Gather Limited	Hong Kong	HK$1	–	100%	Investment holding
Forever Gather Limited	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	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	–	100%	Manufacture and sale of collagen sausage casing
梧州市神生膠原製品有限公司*	PRC/Mainland China	RMB200,000,000	–	100%	Collagen technology consulting services
梧州市神冠投資開發有限公司*	PRC/Mainland China	RMB50,000,000	–	100%	Investment holding
梧州市先盛膠原蛋白技術諮詢服務有限公司 ("Wuzhou Xiansheng")*	PRC/Mainland China	RMB500,000	–	100%	Investment holding

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

17. Available-For-Sale Investment

The investment represented investment in equity security which is designated as an available-for-sale financial asset and has 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.

18. Held-To-Maturity Investments

Group

	2011			2010		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
PRC Certificate Treasury Bonds	**3.5**	**2012**	**154,329**	2.6	2011	201,965
Non-current						
PRC Certificate Treasury Bonds	**5.6**	**2014**	**50,403**	–	–	–
			204,732			201,965

The held-to-maturity investments represent unlisted, non-transferrable PRC Certificate Treasury Bonds issued by the Ministry of Finance of the PRC. The investments are carried at amortised cost.

19. Deferred Tax

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

Deferred tax assets

Group

	Deferred government grants *RMB'000*	Depreciation in excess of related depreciation allowance *RMB'000*	Accrued salary *RMB'000*	Impairment provision against trade receivables *RMB'000*	Impairment provision against inventories *RMB'000*	Total *RMB'000*
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 and at 1 January 2011	**2,113**	**1,426**	**4,175**	**747**	**329**	**8,790**
Deferred tax credited to the statement of comprehensive income (note 9)	**2,229**	**256**	**2,100**	**23**	**676**	**5,284**
At 31 December 2011	**4,342**	**1,682**	**6,275**	**770**	**1,005**	**14,074**

19. Deferred Tax (Continued)

Deferred tax liabilities

Group

	Withholding tax *RMB'000*
At 1 January 2010	1,091
Deferred tax credited to the statement of comprehensive income *(note 9)*	(1,091)
At 31 December 2010 and at 1 January 2011	–
Deferred tax charged to the statement of comprehensive income *(note 9)*	630
At 31 December 2011	630

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.

The Group has tax losses arising in Mainland China of RMB7,592,000 (2010: RMB6,442,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in a subsidiary that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

20. Inventories

	Group	
	2011 ***RMB'000***	2010 *RMB'000*
Raw materials	**74,923**	54,303
Work in progress	**9,896**	8,320
Finished goods	**97,523**	56,226
	182,342	118,849

21. Trade and Bills Receivables

	Group	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**121,236**	138,527
Bills receivable	**49,471**	3,000
Due from a related company	**649**	665
Less: Impairment	**(5,130)**	(4,982)
	166,226	137,210

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 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**146,573**	132,686
3 to 4 months	**11,354**	1,260
Over 4 months	**8,299**	3,264
	166,226	137,210

21. Trade and Bills Receivables (Continued)

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

		Group	
	Note	**2011** *RMB'000*	2010 *RMB'000*
At beginning of year		**4,982**	6,695
Impairment loss recognised	6	**148**	–
Amount written off as uncollectible		**–**	(78)
Impairment losses reversed	6	**–**	(1,635)
At end of year		**5,130**	4,982

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB5,130,000 (2010: RMB4,982,000) with the same amounts as their 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 aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2011 *RMB'000*	2010 *RMB'000*
Neither past due nor impaired	**152,388**	127,531
Less than 1 month past due	**4,449**	5,155
1 to 2 months past due	**3,590**	1,260
Over 2 months past due	**5,799**	3,264
	166,226	137,210

Included in the above bills receivable balance amounting to RMB42,971,000 (2010: Nil) has been pledged to secure other bank borrowings (note 27).

21. Trade and Bills Receivables (Continued)

Due from a related company:

	Group		
	31 December 2011	**Maximum amount outstanding during the year**	**1 January 2011**
	RMB'000	***RMB'000***	***RMB'000***
LJK Frozen SDN. BHD. ("LJK") (formerly known as Exceltech Enterprise SDN. BHD.)	**649**	**2,114**	**665**

LJK is controlled by Mr. Low Jee Keong, a director of the Company. The amount due from LJK 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.

22. Prepayments, Deposits and Other Receivables

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**26,610**	35,472	**177**	–
Deposits and other receivables	**21,829**	61,892	**286**	224
	48,439	97,364	**463**	224

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. Principal-Protected Investments

The carrying amounts, which approximate to their fair values, of principal-protected investments based on the maturity dates of respective contracts are analysed as follows:

	2011 *RMB'000*	2010 *RMB'000*
Within one year	50,000	–

The Group has entered into certain contracts of structured investments with a bank. The structured investments were principal-protected at the maturity dates and contained embedded derivatives which were not closely related to the host contracts. The interest rates of these investments varied in relation to the relative movements of the underlying variables such as foreign exchange rates. The entire combined contracts have been designated as financial assets at fair value through profit or loss ("FVTPL") on initial recognition.

Subsequent to the end of the reporting period, the structured investments have matured and been settled and the related gain from these investments amounted to RMB283,000.

24. Cash and Cash Equivalents

	Group		Company	
	2011 *RMB'000*	2010 *RMB'000*	2011 *RMB'000*	2010 *RMB'000*
Cash and bank balances	430,996	245,673	286	4,121
Time deposits	56,793	542,063	–	–
	487,789	787,736	286	4,121

At the end of reporting period, the Group's cash and cash equivalents denominated in RMB amounted to RMB475,926,000 (2010: RMB771,019,000). 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	
	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**37,298**	20,433
1 to 2 months	**8,962**	1,976
2 to 3 months	**1,582**	697
Over 3 months	**4,592**	3,251
	52,434	26,357

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

26. Other Payables and Accruals

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**9,185**	9,156	**–**	–
Accruals	**71,536**	54,747	**–**	169
Other payables	**43,019**	49,428	**1,395**	2,229
Due to a then non-controlling shareholder	**–**	6,300	**–**	–
	123,740	119,631	**1,395**	2,398

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

27. Interest-Bearing Bank Borrowings

Group

	2011			2010		
	Effective interest rate (%)	Maturity	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Other bank borrowings:						
– secured	8.9	2012	42,971	–	–	–
Non-current						
Bank loans:						
– unsecured	7.32	2013 – 2014	20,000	5.76 – 6.03	2013	140,000
			62,971			140,000

	Group	
	2011 *RMB'000*	2010 *RMB'000*
Analysed into:		
Within one year or on demand	42,971	–
In the second year	5,000	–
In the third to fifth years, inclusive	15,000	140,000
	62,971	140,000

All of the Group's bank borrowings are denominated in RMB. The secured bank borrowings are secured by bills receivable of RMB42,971,000.

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

	2011	2010
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,322,120,000 (2010: 1,661,060,000) ordinary shares of HK$0.01 each	**33,222**	16,611
Equivalent to RMB'000	**28,568**	14,633

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**	**Share premium**	**Equivalent nominal value of ordinary shares**	**Equivalent share premium**	**Equivalent total**
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*	*RMB'000*
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 (a))*	1,060,000	11	6,271	9	5,476	5,485
At 31 December 2010 and at 1 January 2011	**1,661,060,000**	**16,611**	**1,341,150**	**14,633**	**1,181,478**	**1,196,111**
Bonus issue *(note (b))*	**1,661,060,000**	**16,611**	**(16,611)**	**13,935**	**(13,935)**	**–**
At 31 December 2011	**3,322,120,000**	**33,222**	**1,324,539**	**28,568**	**1,167,543**	**1,196,111**

Notes:

(a) The subscription rights attaching to 1,060,000 share options were exercised at the subscription price of HK$4.33 per share (before adjustment for subsequent bonus issue in 2011) (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.

(b) Pursuant to the special resolution passed on 15 June 2011, the Company made a bonus issue of 1,661,060,000 bonus shares of HK$0.01 each on the basis of ten bonus shares for every ten issued ordinary shares.

29. Share Option Scheme

In order 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 this limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

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

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

The offer of a grant of share options may be accepted within seven 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 five 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 five 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.

29. Share Option Scheme (Continued)

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

	2011 Weighted average exercise price *HK$ per share**	2011 Number of options# *'000*	2010 Weighted average exercise price *HK$ per share** *(Restated)*	2010 Number of options# *'000* *(Restated)*
At 1 January	2.165	9,880	2.165	12,000
Exercised during the year	–	–	2.165	(2,120)
At 31 December	2.165	9,880	2.165	9,880

No share options were exercised during the year. The weighted average share price at the date of exercise for share options exercised in 2010 was HK$5.07 per share as restated to reflected the bonus issue during the year.

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

2011

Number of options# *'000*	Exercise price* *HK$ per share*	Exercise period
9,880	2.165	13 October 2010 – 12 October 2015
9,880		

2010

Number of options# *'000* *(Restated)*	Exercise price* *HK$ per share* *(Restated)*	Exercise period
9,880	2.165	13 October 2010 – 12 October 2015
9,880		

* *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 number of options has been adjusted to reflect the bonus issue during the year.*

29. Share Option Scheme (Continued)

The fair value of the share options granted in 2009 was HK$9,760,000 (HK$0.7790 to HK$0.8320 each, as restated to reflect the bonus issue during the year) of which the Group recognised a share option expense of RMB1,908,000 (2010: RMB3,484,000) during the year ended 31 December 2011.

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:

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
Adjusted weighted average share price (HK$ per share)	2.165*

* *The adjusted weighted average share price reflects the bonus issue during the year.*

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.

There was no share option exercised during the year. In the prior year, 1,060,000 share options (before adjustment for subsequent bonus issue during the year) were exercised which resulted in the issue of 1,060,000 ordinary shares of the Company and new share capital of HK$11,000 and share premium of HK$4,580,000, as further detailed in note 28(a) to the financial statements.

At the end of the reporting period, the Company had 9,880,000 share options (as adjusted to reflect the bonus issue during the year) 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 9,880,000 additional ordinary shares of the Company and additional share capital of HK$99,000 (RMB80,000) and share premium of HK$21,291,000 (RMB17,255,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 9,880,000 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 in 2009 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.

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
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 and at 1 January 2011	1,181,478	172,535	(54,007)	2,835	205,563	1,508,404
Profit for the year	–	–	–	–	285,439	285,439
Exchange realignment	–	–	(65,482)	–	–	(65,482)
Total comprehensive income for the year	–	–	(65,482)	–	285,439	219,957
Bonus issue	(13,935)	–	–	–	–	(13,935)
Equity-settled share option arrangement	–	–	–	1,908	–	1,908
Final 2010 dividend	–	–	–	–	(113,079)	(113,079)
Special 2010 dividend	–	–	–	–	(27,955)	(27,955)
Interim 2011 dividend	–	–	–	–	(117,560)	(117,560)
At 31 December 2011	1,167,543	172,535	(119,489)	4,743	232,408	1,457,740

* *These reserve accounts comprise the Company's reserves available for distribution amounting to RMB1,399,951,000 (2010: RMB1,387,041,000).*

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	
	2011	2010
	RMB'000	*RMB'000*
Within one year	**294**	673
In the second to fifth years, inclusive	**–**	308
	294	981

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	
	2011	2010
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Buildings	**56,123**	18,057
Plant and machinery	**21,783**	9,170
Authorised, but not contracted for:		
Production facilities	**183,501**	416,489
	261,407	443,716

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	2011 RMB'000	2010 RMB'000
Company controlled by a director of a subsidiary:			
Sales of products	(i)	4,526	281
Commission paid	(ii)	363	419
Company controlled by a director of the Company:			
Sales of products	(i)	5,063	4,359
Companies controlled by spouse of a director of the Company:			
Sales of materials	(iii)	101	267
Purchases of packing materials	(iii)	18,147	15,870

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% (2010: 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.

(b) Other transactions with related parties

During the year, the Group acquired 100% equity interest of Wuzhou Xiansheng at the consideration of RMB372,012,000, of which Wuzhou Xiansheng held 3% of Wuzhou Shenguan and bank balances of RMB102,000 as at the date of the acquisition. Upon the completion of the acquisition, Wuzhou Shenguan became a wholly-owned subsidiary of the Group.

(c) Balances with related parties

Balances with related parties are detailed in note 21 to these financial statements.

34. Related Party Disclosures (Continued)

(d) Compensation of key management personnel of the Group

	2011 RMB'000	2010 RMB'000
Fees	272	280
Salaries, allowances and benefits in kind	3,020	2,842
Performance-related bonuses	11,454	9,884
Retirement benefit contributions	29	26
Equity-settled share option expense	1,587	2,913
Total compensation paid to key management personnel	16,362	15,945

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

The related party transactions in respect of items (a) and (b) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

35. Financial Instruments by Category

Other than an available-for-sale investment, held-to-maturity investments and principal-protected investments as disclosed in notes 17, 18 and 23 of the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

36. Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

36. Fair Value Hierarchy (Continued)

Assets measured at fair value:

Group

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Financial assets at FVTPL:				
Principal-protected investments	**–**	**50,000**	**–**	**50,000**

	2010			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at FVTPL:				
Principal-protected investments	–	–	–	–

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurements (2010: Nil).

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise an available-for-sale investment, principal-protected investments, held-to-maturity investments, cash and bank balances, and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

Interest rate risk

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

37. Financial Risk Management Objectives and Policies (Continued)

Interest rate risk (Continued)

At 31 December 2011, 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 2011 would have been lower/higher (through the impact on floating rate borrowings) by the amount of RMB511,000 (2010: RMB1,414,000).

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.

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.

37. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

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 2011 and 2010 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 and bills receivables are disclosed in note 21 to the financial statements.

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.

37. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

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

	2011			
	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	44,475	6,468	16,047	66,990
Trade payables	52,434	–	–	52,434
Other payables and accruals	123,740	–	–	123,740
	220,649	6,468	16,047	243,164

	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

Company

As at 31 December 2011, the Company had other payables and accruals and an amount due to a subsidiary amounting to RMB1,395,000 (2010: RMB2,398,000) and RMB1,699,000 (2010: RMB1,781,000), respectively, all of which was repayable within one year or on demand.

37. Financial Risk Management Objectives and Policies (Continued)

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 2011 and 2010.

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 and other 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	
	2011	2010
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**62,971**	140,000
Trade payables	**52,434**	26,357
Other payables and accruals	**123,740**	119,631
Less: Cash and cash equivalents	**(487,789)**	(787,736)
Net debt/(asset)	**(248,644)**	(501,748)
Adjusted capital	**1,905,472**	1,837,679
Gearing ratio	**(13%)**	(27%)

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. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 19 March 2012.

Five Year Financial Summary

The consolidated results of Shenguan Holdings (Group) Limited (the "Company") and its subsidiaries (together the "Group") for the three years ended 31 December 2009, 2010 and 2011 and the consolidated assets, liabilities and non-controlling interests of the Group as at 31 December 2009, 2010 and 2011 are those set out in the published audited financial statements.

The summary of the consolidated results of the Group for each of the two years ended 31 December 2007 and 2008 and of the assets, liabilities and non-controlling interests as at 31 December 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 and were prepared on a combined basis as if the structure of the Group had been in existence throughout the years.

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

Year ended 31 December

	2011 ***RMB'000***	2010 *RMB'000*	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
RESULTS					
REVENUE	**1,501,985**	1,152,689	794,418	454,053	259,291
Cost of sales	**(571,709)**	(454,616)	(308,641)	(203,971)	(123,082)
Gross profit	**930,276**	698,073	485,777	250,082	136,209
Other income and gains	**62,578**	49,118	3,548	3,882	4,747
Selling and distribution costs	**(22,533)**	(14,595)	(11,191)	(7,153)	(5,740)
Administrative expenses	**(101,911)**	(68,026)	(79,587)	(23,109)	(17,550)
Other expenses	**–**	–	–	(1,240)	(1,603)
Finance costs, net	**(289)**	252	(11,448)	(8,836)	(1,074)
PROFIT BEFORE TAX	**868,121**	664,822	387,099	213,626	114,989
Income tax (expense)/credit	**(163,490)**	(134,520)	(35,998)	(16,812)	13,647
PROFIT FOR THE YEAR	**704,631**	530,302	351,101	196,814	128,636
Profit attributable to:					
Owners of the Company	**689,319**	513,458	326,061	172,853	120,932
Non-controlling interests	**15,312**	16,844	25,040	23,961	7,704
	704,631	530,302	351,101	196,814	128,636
As at 31 December					
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**2,192,395**	2,199,754	1,752,793	465,907	336,691
TOTAL LIABILITIES	**(286,923)**	(335,154)	(236,775)	(175,212)	(145,244)
NON-CONTROLLING INTERESTS	**–**	(26,921)	(19,377)	(40,615)	(11,466)
	1,905,472	1,837,679	1,496,641	250,080	179,981