SHEN GUAN

Shenguan Holdings (Group) Limited

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

2014
ANNUAL REPORT

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CORPORATE INFORMATION

Executive Directors

Ms. Zhou Yaxian *(Chairman and President)*
Ms. Cai Yueqing (Retired on 1 June 2014)
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

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 Advisers as to Hong Kong Laws

Loong & Yeung
Suites 2001-2006, 20/F
Jardine House
1 Connaught Place
Central
Hong Kong

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Hutchins Drive
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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
The Hong Kong and Shanghai
Banking Corporation

Auditors

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

INFORMATION FOR INVESTORS

Listing Information

Listing:	The Stock Exchange of Hong Kong Limited
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
MSCI Global Small Cap China Index

Key Dates

13 October 2009
Listed on Hong Kong Stock Exchange

20 March 2015
Announcement of 2014 Annual Results

13 May 2015 to 18 May 2015
(both days inclusive)
Closure of Register of Members
(for Annual General Meeting)

18 May 2015
Annual General Meeting

22 May 2015 to 27 May 2015
(both days inclusive)
Closure of Register of Members (for Final Dividend)

on or around 10 June 2015
Final Dividend Payment Date

Registrar & Transfer Offices

Principal:
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch:
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Shares Information

Board lot size: 2,000 shares

Shares issued as at 31 December 2014
3,304,016,000 shares

Market capitalization as at 31 December 2014
HK$8,524,361,280

Basic earnings per share for 2014
Full year RMB16.5 cents

Dividend per share for 2014
Full year HK11.6 cents

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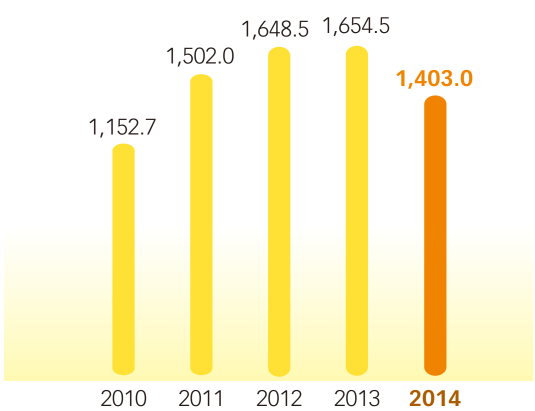
FINANCIAL HIGHLIGHTS

Financial and Operating Highlights for the year ended 31 December

(RMB million, except where otherwise stated)	2014	2013	% change
Revenue	**1,403.0**	1,654.5	-15.2
Profit attributable to Owners of the Company	**547.5**	771.3	-29.0
Basic Earnings Per Share (RMB cents)	**16.5**	23.2	-28.9
Dividend Per Share (HK cents)			
– Interim	**4.3**	4.7	-8.5
– Special (Interim)	**3.2**	2.8	+14.3
– Final	**4.1**	7.0	-41.4
– Special (Final)	**–**	4.5	N/A
Cash Inflow from Operation	**280.8**	467.5	-39.9
Total Assets	**3,698.9**	3,185.1	+16.1
Inventory Turnover Day – Raw Materials (days)	**61.1**	37.6	+23.5 days
Inventory Turnover Day – FG & WIP (days)	**327.3**	149.9	+177.4 days
Trade Receivables Turnover Day (days)	**54.3**	44.6	+9.7 days
Trade Payables Turnover Day (days)	**84.8**	73.6	+11.2 days

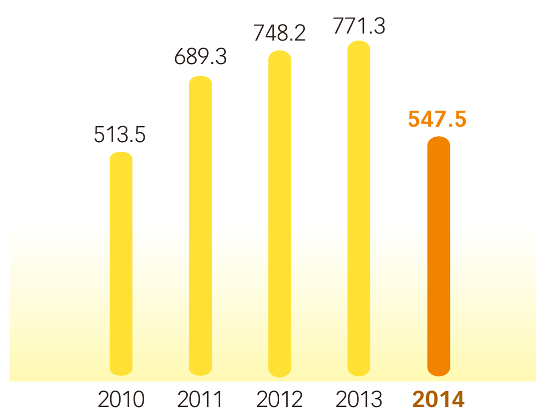
Turnover

RMB million



Profit attributable to Owners of the Company

RMB million



CHAIRMAN'S STATEMENT

In 2014, in face of China's economic slowdown and the changes to consumption patterns, the country's food industry was affected to a certain extent, and unavoidably had to innovate and improve its products to cope with the impact. Moreover, the fresh pork price dropped by 4.3% during the year, which impeded the growth in the domestic sales of processed meat, together with the renovation of environmental protection facilities, the demand for sausage casing fell short of expectations. The Group's sales revenue decreased by 15.2% to RMB1,403.0 million for 2014.

Nevertheless, the Group actively tackled the volatile business environment and conscientiously adhered to its motto of "consolidate and develop markets, with core focus on on-site production management, equipment management and cost management; and at the same time strictly executing internal control while promoting the Company's core competencies." It also took a pragmatic approach to operational risk control and closely monitored the credit risk of its customers. It also further enhanced the internal control and consolidated its strengths. The Group has shifted to larger pieces of inner layer of cattle skin as raw materials since 2013, and the results is proven as it has enabled the Group to stabilize the product quality and reduce the production cost at the same time after the adaptation period in 2013. Moreover, the full implementation of mechanization and automation renovation eased the labor intensity, saved labors and enhanced the labor efficiency. Although these measures could not offset the impact of cyclic fluctuations of China's economy and food industry in the near term, they have laid the foundations for the Group's sustainable development in the long term.

During the year, the Group's overall financial position remained sound. The Group maintained sufficient cash flow, as capital expenditure has reduced and working capital level has become stabilized. In view of the sound financial position and ample capital of the Group, the Directors utilized HK$73,941,000 to buy back 32,204,000 shares of the Company during the Year as a way to pay back to our shareholders. The Board is also delighted to recommend the payment of a final dividend of 4.1 HK cents. The annual dividend payout ratio will be approximately 55.7%.

To all shareholders,

On behalf of the Shenguan Holdings (Group) Limited ("Shenguan Holdings" or the "Company"), I hereby present the audited annual results for the year ended 31 December 2014 (the "Year" or the "Period") of the Company and its subsidiaries (which are collectively referred to as "the Group").

Ms. Zhou Yaxian
Chairman of the Board and President of our Company

The Group has always been pursuing technological innovation, adopting stringent standards in management and adhering to integrity when running its business and coping with changes in the business environment. In September 2014, the Group underwent a maliciously attacks by a short-selling agency, who tried to sully the Group's reputation with malicious allegations and fabricated evidence to harm the interests of the shareholders of the Company. In order to protect the interest of our shareholders, the Group promptly rebutted the allegations. In the future, the Board will continue to monitor the price of the shares of the Company and its capital position, take concrete actions to protect the interests of our shareholders and reward them by buying back the shares in due course.

We believe that a clean hand wants no washing. Despite the transient damage from such malicious attacks, we are confident of a stable and long term development by unremitting renovation.

In 2015, China will be able to achieve moderate economic growth despite the persistent downward pressure because the government has mapped out a plan to make steady progress in economic development and to stabilize the conditions for it. The country's moderate economic growth, ongoing urbanization and ever increasing income of the residents will continue to be the key drivers of the country's food industry. With the implementation of the National Plan on New Urbanization (2014-2020), China will gradually accelerate its urbanization. The improvement of living standard and the change of lifestyle of both the urban and rural residents will stimulate the demand for meat products, boosting the overall consumption of processed meat products. On the other hand, the country's economic restructuring is picking up momentum, raising the levels of industrialization and mechanization. The China Meat Association advocates that the meat enterprises change their mode of operation and restructure their businesses with the aim of enhancing the quality and efficiency of the economic development. It states that enterprises should cease the mode of indiscriminate and rapid expansion, and adapt themselves to the conditions of the stage of moderate growth. These will facilitate the optimization and integration of meat processing industry. Moreover, as the cold chain infrastructure improves, low-temperature meat products will be gaining popularity and will thus become a focus of the meat industry in the future. This will be conducive to healthy and stable development of the sausage casing industry.

As the production base of Shenguan Holdings is situated in Guangxi, which has formed a pact with Guangdong to establish the "Guangdong-Guangxi Interprovincial Pilot Cooperation Special Zone", the Group will not only be able to enjoy the preferential policies under the national plan for "Western Region Development", but will also be able to seize the opportunities brought by the Pearl River-West River Economic Zone, another area earmarked by the Central Government for the national development in its strategy. The Pearl River-West River Economic Zone will gain support from the state in the form of policies and system reform, and will become a magnet for projects and capital. The development of the Pearl River-West River Economic Zone has begun, and the Group is looking forward to new opportunities for its business development.

In 2015, the Group will strengthen its management with perseverance and innovation. It will also endeavor to consolidate its leading position in China's market for collagen sausage casings, step up efforts to develop collagen technology, and diversify its businesses with the aim of enhancing its overall competitiveness. The Group will further develop its overseas market and expand its exporting sales through enhancing its cooperation with customers and overseas distributors. The Group will also take full advantage of changes in the market and adopts flexible sales measures in order to maintain its leading position in the competition with foreign competitors and domestic small-scale participants.

Technology and innovative products are the keys to its success. Health industry will be a strategic and pillar industry in China, creating a bright future for food, health care products and medications which contain collagen. Riding on its core technology in collagen, the Group is dedicated to build a safe, reliable and standardized production base designed for collagen material required by health industry, actively promote Industry 4.0 for collagen production to upgrade and transform the collagen industry and proactively promote the application of collagen in food, health care products and medications. As a direction for development, firstly the Group will apply the collagen technology to production of edible gelatin and medicinal gelatin. With the nationwide increasingly stringent requirement in environment protection, obsolete production and environmental protection facilities could no longer meet the regulatory requirements. Similar to national restriction and shut-down of small paper plant and electricity plant in the past, a great number of small-scale gelatin production enterprises will face closure. The integration in gelatin industry results in a huge gap of supply and demand, leading to a promising prospect. Secondly the Group will commence the application of collagen to health care products, cosmetics and skin care products. Thirdly it will conduct investigation and research in collagen and its related industries, and make investment and acquisitions. This will help the Group develop itself into an industrialized and high standard health base with collagen technology as its core competency and diverse businesses, thus enhancing its overall competitiveness.

I would like to thank our shareholders for their long-term support to the Group. I would also like to thank for the unremitting efforts from the staff in the past year that contributed to the steady development of Shenguan. The Group will endeavor to maintain its leading position in the market and actively seek new business opportunities in order to reward its shareholders with good returns.

Zhou Yaxian
Chairman and President

Hong Kong, 20 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

China's macroeconomic environment, slow growth in China's meat industry and the declining prices of fresh pork affected the growth in the sales of domestic processed meat products, together with the renovation of environmental protection facilities, the demand for sausage casings fell short of the expectations. Such factors coupled with the Group's stricter control of credit risks from customers during the Period, affected the sales volume of products to a certain extent. The Group practically developed its business according to its production and operation plans formulated in early 2014 and adhered to the guidance of "consolidating and developing the markets with foci on on-site production management, equipment management and cost management; and at the same time enhancing internal management while increasing the competitiveness of the enterprise." During the Period, in order to cope with the new trend of domestic meat product industry, the Group launched new products from the new production method to cater for the market and sold products from the old production method and other older inventory at discount. The moves resulted in a slight decline in average prices of the Group's products. As for production costs, the Group coped with the upward pressure of various costs accordingly and improved production efficiency and operating efficiency, so as to maintain the profit margins at stable levels. However, these measures still failed to offset the impact caused by the decreases in sales volume and average prices in a short run, which affected the financial results for the whole year.

Nevertheless, the Group's overall financial position remained sound and stable. With the decrease in capital expenditure of the Group during the Year, the Group has sold most of the products from the old production method and other older inventory and has strictly controlled the credit risks from customers, thus stabilizing the operating capital level and maintaining the overall cash flow at a sufficient level. Based on the financial position of the Group, the Board decided to use approximately HK$73,941,000 to repurchase 32,204,000 shares of the Company during the Year, and resolved to declare the payment of a final dividend of HK4.1 cents per share for the year ended 31 December 2014, with an annual payout ratio of 55.7%. The Board will continue to monitor the share price and capital position of the Company and repurchase the shares as appropriate to protect its shareholders' interests.

Market Review

In 2014, China economy attained a new phase on the back of its steady pace of development and consistent progress in its restructuring. According to a preliminary estimate by the National Bureau of Statistics of China, the country's gross domestic product grew by 7.4% and its national disposable income per capita rose by 10.1% to RMB20,167 in 2014.

On the demand side, China's consumption used to be characterized by large volume and the need for emulation, but has now become personalized and diverse. In 2014, the changes in consumers' demand and requirement triggered changes in the product mix and production technique of the meat processing manufacturers. The same thing has also happened in the sausage industry. The consumers have now become more demanding towards sausage casings. In 2014, the meat industry recorded a moderate growth. According to the statistics from the National Bureau of Statistics of China, the combined output of pork, beef, mutton and poultry increased by 2.0% to 85.40 million tons.

As a result of the slow growth in the consumer sector and meat industry, low-temperature products from most meat processing enterprises also underwent a slow growth, hindering the sales of sausage casings. In addition, the dramatic depreciation of currencies in Europe and Japan against Renminbi created opportunities for the import of foreign made sausage casings into the Chinese market, hence intensifying the competition. Most of the domestic meat processing enterprises were not only affected by the economic environment but also saw their capital flows become constrained. The increase in the number of loss-making enterprises in slaughtering and meat processing industries (including the sausage industry) also affected all the industries' development.

Business Review

Product Mix

The Group is principally engaged in the manufacture and sale of edible collagen sausage casings, most of which are used for the production of western sausages. Product innovation and diversification by sausage manufacturers continued to drive the demand for sausage casings of different sizes and fillings. The Group also made great efforts in enhancing internal management, streamlining production processes and improving efficiency. In order to keep pace with the new trend of the domestic meat product industry, the Group extensively launched new products from the new production method that can be applied to more types of sausages fillings to cater for the market in 2014. Currently the new products from the new production method have been widely used by customers and the quality is becoming more stable.

Supply of Raw Materials

Cattle's inner skin is a major raw material for collagen sausage casing production. The supply of cattle's inner skin remained stable in the past few years. It is expected that the supply will remain stable in the coming years as the Group has established good relationships with the suppliers over the years. In order to improve the quality of the finished goods and achieve production cost-effectiveness, the Group started switching to larger pieces of cattle skin for raw material since 2013. The switch in raw material proved to be a success after an adaptation period in 2013 because it stabilized the quality and reduced the costs in 2014.

Moreover, the Group started to produce edible cellulose at full capacity in the second half of 2014 entirely for its internal use. This has helped to ensure the product safety of edible cellulose and to reduce the production costs of sausage casings.

Technological Research & Development

The Group continued to cooperate with customers, participated in the preliminary stages of R&D process of the new sausage products and assisted customers in optimizing their product portfolio. Presently, the Group has successfully developed sausage casings suitable for various sausage fillings. As at 31 December 2014, the Group had 31 valid patents granted by the State Intellectual Property Office in the PRC and 21 patents applications have been accepted by the relevant authorities pending approval. These patented technologies have enabled the Group to distinguish itself from its peers in the market and also become the key entry barrier for new market participants.

As for production technologies, as at 31 December 2014, the Group's production information system project has been certified by the experts from Wuzhou Science Bureau (梧州市科技局), and its heat energy technology has obtained the Technology Advancement Award (科技進步獎) from the Government of Wuzhou. In addition, the two projects of "The Safety Evaluation of Collagen Sausage Casing Production Process" (膠原蛋白腸衣生產加工過程安全性評價) and "The Development of Thin Sausage Casing and the Cultivation of Innovative Enterprises" (薄型腸衣開發與創新型企業培育) were included in the Science and Technology Plan of Guangxi Zhuang Autonomous Region (廣西壯族自治區二零一四年科技計劃). Furthermore, the Group's "Exemplary Project of Industrialized Production of Western Low-temperature Collagen Sausage Casing" (西式低溫膠原蛋白腸衣產業化示範) was included as "Exemplary Project of Industrialization in the National Torch Program 2014 (二零一四年度國家火炬計劃－產業化示範項目)" in October 2014.

Machines Renovation

Mechanization and automation are crucial to ease labor intensity and enhance production efficiency. The Group continued to put more efforts in mechanization and automation in 2014. On one hand, the most labour intensive production process has been machanised. Such change has solved a labor intensity issue which had been outstanding for over 20 years and substantially eased labor intensity of employees. As a result, the number of operators required for each sausage casing finishing production line has been reduced from 1.3 to 1 and the aggregate production staff numbers decreased by approximately 10%. On the other hand, the Group fully promoted the information automation process in the course of production which has basically realized a comprehensive information management in the production process. This will provide prompt and accurate information relating to the production and enhance the labor efficiency, and provide gist for data research for the collagen industry 4.0.

Quality Control

The advantage of quality control is particularly important in view of the increasing public concern over food safety. The Group strictly controls over each production step to ensure that its products are of high quality and has complied with all safety requirements before being delivered to customers.

The Group has passed the assessments of ISO9001:2008 Quality Management System, ISO22000:2005 Food Safety Management System, and has obtained the QS Food Production Permit. It has also registered with Food and Drug Administration ("FDA") in the United States for products to be exported to the United States. In addition, the production of all of the Group's products have strictly complied with China's national standards (GB14967–94), sausage casing manufacturing industry standards (SB/T10373–2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are recognition to the Group as being a trustworthy product supplier to its customers. The Group's examination centre for the assessment of raw materials and finished goods continues to operate efficiently. The Group has built a comprehensive examination system which further enhances the scope and techniques of examination so as to ensure the safety and quality of the products. Currently, the Group's examination centre is able to examine over 200 indicators including heavy metal and microelement, pesticide residues, microorganism and protein, and has obtained Qualification Accreditation of Food Inspection Agencies and Metrological Certification. It is currently applying for the qualification for the status of an independent inspection institution. In November 2014, the Group was awarded the First Session of Wuzhou Mayor Quality Prize.

Customer Relationship

The Group is committed to developing a long-term cooperation relationship with its business partners. After years of cooperation with its business partners based on mutual trust, the Group has established a sophisticated customer network. Over the years, the Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only in China, but also in various overseas markets, such as South America, Southeast Asia and the United States. In 2014, the Group continued to supply high quality sausage casing products to a number of renowned food suppliers in China. The number of domestic customers continued to increase.

Financial Analysis

Revenue

Revenue decreased by 15.2% to approximately RMB1,403.0 million in 2014 from approximately RMB1,654.5 million in 2013. Both the sales volume of collagen casings and the average selling price decreased during the Year. Due to China's macroeconomic environment and the declining prices of fresh pork, growth in sales of processed meat products was hindered, together with the renovation of environmental protection facilities, the demand for sausage casings was below expectation. All these factors, together with strict control on customer credit risk during the Period, resulted in a decrease in sales volume. In addition, as the Group has improved the production technique since the second half of 2013, in order to produce new products to better meet the market demand. Thus, the Group sold products from the old production methods and other relatively old inventories at discount in 2014, which caused a decline in the average selling price when compared to that in 2013.

Cost of sales

Cost of sales decreased by 7.8% to approximately RMB633.2 million in 2014 from approximately RMB687.0 million for 2013, mainly attributable to a decrease in the sales volume. Costs of raw material declined by 10.0% to approximately RMB265.8 million, and utilities expense decreased by 10.1% to approximately RMB156.9 million.

The production automation implemented by the Group enhanced the production efficiency and lower the need of labour. As at the end of 2014, the Group had a total of approximately 3,570 contract employees, representing a decrease of approximately 330 contract employees as compared to that of the end of 2013. Based on the financial accounts of the Group, the direct labor costs increased by 3.0% to approximately RMB108.7 million, which was in fact due to the Group has made use of the balance of the staff rewards and welfare funds of approximately RMB19.2 million as the payment of labor expenses in 2013. Excluding such factor, the direct labor costs decreased by 12.9%.

Gross profit

Gross profit decreased by 20.4% to approximately RMB769.8 million in 2014 from approximately RMB967.5 million in 2013. The gross profit margin decreased from approximately 58.5% in 2013 to approximately 54.9% this year. Such decrease was mainly caused by the sales of the Group's products from the old production method and other relatively old inventories at discount.

Other income and gains

Other income and gains decreased by 47.2% to approximately RMB38.4 million in 2014 from approximately RMB72.6 million in 2013. In 2013, as Renminbi had appreciated against Hong Kong dollars, a foreign exchange gain of approximately RMB20.0 million caused by the currency revaluation of intercompany current account and payment for dividend was recorded. No such gain resulted from depreciation of Renminbi against Hong Kong dollars was recorded for the same period of 2014. In addition, income from government grants decreased by approximately RMB16.1 million.

Selling and distribution expenses

Selling and distribution expenses decreased by 19.5% to approximately RMB17.7 million in 2014 from approximately RMB22.0 million in 2013. Selling and distribution expenses accounted for 1.3% of the turnover in 2014, the same as that in 2013.

Administrative expenses

Administrative expenses increased by 28.0% to approximately RMB99.7 million in 2014 from approximately RMB77.9 million in 2013. The increase in administrative expenses was mainly due to the use of the balance of staff rewards and welfare funds by the Group to pay part of the employee benefits in 2013, which resulted in a decrease of approximately RMB3.7 million in salaries and benefit expenses in the administrative expenses in 2013. In addition, provision of approximately RMB9.7 million was made for trade receivables, representing an increase of approximately RMB9.2 million when compared to that in 2013. Moreover, consultancy fee increased by approximately RMB3.7 million because the Group seized opportunities for business expansion.

Finance costs

Finance costs increased by 129.7% to approximately RMB14.6 million in 2014 from approximately RMB6.4 million in 2013. Such increase was mainly caused by two new bank borrowings of HK$634 million in aggregate (equivalent to approximately RMB500.1 million), which were secured by three fixed deposits totalling RMB546.0 million. Please refer to the sub-section headed "Cash and bank borrowings" under the section "Liquidity and Capital Resources" for the arrangements in details. The above arrangements are collectively referred to as "Mainland onshore guarantee for offshore loan". As a result of the increase in borrowings, the interest expenses and the bank facilities charges increased by approximately RMB7.5 million and approximately RMB4.7 million, respectively. On the other hand, however, the government subsidy for interest increased by approximately RMB4.6 million, which partially offset the increase in interest expenses and charges.

Income tax expenses

Income tax expenses were approximately RMB128.7 million in 2014, as compared to approximately RMB162.5 million for the same period of 2013. The Company's major operating subsidiaries, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") and Wuzhou Shensheng Collagen Products Co., Ltd. (梧州市神生膠原製品有限公司) ("Shensheng Collagen") enjoyed a preferential tax treatment because of their location in Western China which had been earmarked by the Central Government of the PRC for its Western Region Development Campaign as well as their engagement in policy encouraged industries. The applicable tax rate for Wuzhou Shenguan and Shensheng Collagen was 15%.

The effective corporate income tax rates applied to the Group was 17.4% in 2013 and 19.0% in 2014. The difference between the effective tax rate and the applicable tax rate was mainly due to the withholding tax levied on dividends declared and paid by Wuzhou Shenguan to its holding companies incorporated in Hong Kong.

Profit attributable to owners of the Company

In view of the aforesaid reasons, profit attributable to owners of the Company decreased by 29.0% to approximately RMB547.5 million in 2014 from approximately RMB771.3 million in 2013. With the exclusion of the effect of the foreign exchange gain caused by the currency revaluation of intercompany current account and payment for dividend, and the government grants (both were included in other income and gains), which were relatively material in amount but were not under the control of the Group, and the effect of payment for part of staff benefits with the balance of staff awards and welfare funds in 2013, the net profit decreased by approximately 23.9% as set out in the table below:

	2014	2013
	RMB'000	*RMB'000*
Profit attributable to owners of the Company	**547,476**	771,277
Less: Foreign exchange gains in other income and gains	**–**	(20,006)
Less: Government grants in other income and gains	**(5,888)**	(22,019)
Add: Tax Effect of government grants	**883**	3,303
Less: Utilization of staff rewards and welfare funds	**–**	(32,690)
Add: Utilization of staff rewards and welfare funds (allocated to finished goods)	**–**	9,742
Add: Tax effect of utilization of staff rewards and welfare funds	**–**	3,442
Profit attributable to owners of the Company after adjustment for the items above	**542,471**	713,049

Liquidity and Capital Resources

Cash and bank borrowings

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

As at 31 December 2014, the cash and cash equivalents together with the pledged deposits amounted to approximately RMB945.6 million, representing an increase of approximately RMB304.2 million from the end of 2013. Among these balances, 95.0% was denominated in Renminbi and the remaining 5.0% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2014, the total bank borrowings of the Group amounted to approximately RMB783.1 million (as at 31 December 2013: approximately RMB200.0 million), and all the bank borrowings were wholly repayable within one year, of which the total bank borrowings denominated in Renminbi were RMB283.0 million, while the total bank borrowings denominated in Hong Kong dollars were HK$634.0 million (equivalent to approximately RMB500.1 million). The two bank borrowings denominated in Hong Kong dollars were subject to an interest rate of HIBOR plus 1% and 1.3% per annum, respectively, and were secured by three fixed deposits (totalling RMB546.0 million) which were denominated in Renminbi and bearing the fixed interest rates of 5.225%, 4.675% and 2.6% per annum respectively. The two bank borrowings above and the corresponding security of the pledged fixed deposit, which were collectively referred to as "Mainland onshore guarantee for offshore loan" in the banking industry, can still bring returns to the Group due to interest spread even after the handling fee paid to the banks.

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB162.5 million as at 31 December 2014. The debt-to-equity ratio was 29.7% as at 31 December 2014 (as at 31 December 2013: 7.6%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

In 2014, approximately RMB280.8 million was generated from the operating activities and approximately RMB10.7 million from financing activities, while the net amount spent on investing activities was approximately RMB423.4 million. Net cash inflow from financing activities was mainly related to the combined effects of new bank borrowings and repayment of bank borrowings, which was partly offset by the payment of final dividend for 2013, payment of interim dividend for 2014 and share repurchase. Net cash outflow from investing activities was mainly related to the purchase of property, plant and equipment, and a cash outflow related to the addition of a pledged fixed deposits, which is not classified as cash and cash equivalent in the statements of cash flow under the accounting standards, thus being defined as a cash outflow in the statement of cash flows.

Exposure to exchange risks

The Group mainly operates in mainland China with most of its 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 believes that the future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

Capital expenditure

The capital expenditure of the Group during the Year amounted to approximately RMB61.2 million (2013: approximately RMB253.8 million) and capital commitments as at 31 December 2014 amounted to approximately RMB119.4 million. Both the capital expenditure and capital commitments were mainly related to the improvement and enhancement of production facilities. The Company has budgeted around RMB180.0 million for capital expenditure for 2015 which will be used for the establishment of a research and development centre, investment in production facilities and research and development of collagen-related products.

Pledge of assets

As at 31 December 2014, bank deposits of RMB546.0 million was pledged to secure bank borrowings totalling HK$634.0 million (equivalent to approximately RMB500.1 million).

Contingent liabilities

As at 31 December 2014 and up to the date of this report, the Group was not aware of any material contingent liabilities.

Acquisitions, disposals and significant investment

During the Year, there was no material acquisition, disposal or investment by the Group.

Human resources

As at 31 December 2014, the Group had approximately 3,570 contract employees. During the Period, the remuneration and employees' benefit expenses charged to profit and loss were approximately RMB137.3 million (2013: approximately RMB132.6 million). In order to attract and retain high quality talents to ensure smooth operation and support the Group's continuing expansion, the Group offers competitive remuneration packages after considering the market conditions and individual qualifications and experience.

Some of the Directors and members of the senior management were granted share options under the Company's share option scheme. Such scheme has been put in place to incentivize employees, and to encourage them to enhance the value and promote the long-term growth of the Group.

Awards

Wuzhou Shenguan's "Research on Recycling Waste Heat Using Heat Pump Technology (利用熱泵技術進行餘熱回收研究)" program won the Wuzhou Science and Technology Advancement Second Prize (梧州市科學技術進步二等獎) in June 2014, and was awarded the honour of the "Leading Enterprises in China Meat Industry 2014 (2014中國肉類食品行業強勢企業)" by China Meat Association at the same time. The Group was also conferred "The 9th CAPITAL Outstanding China Enterprise Awards – Outstanding Enterprise of China Meat Food Industry (第九屆資本傑出中國企業成就獎－資本中國傑出肉類食品企業)" by Capital Magazine (資本雜誌) last July. Wuzhou Shenguan was granted the titles of "Guangxi's Excellent Enterprises (廣西優秀企業)" and "Guangxi's Top 100 Enterprises (廣西企業100強)" respectively in July. The Group has kept the title of "Guangxi Famous Brand Products (廣西名牌產品)" for its collagen protein sausage casing under the "SHENGUAN" label since 1994 until now. In addition, the Group was awarded the title of "Hong Kong Outstanding Enterprises 2014 (2014香港傑出企業)" by Economic Digest (經濟一週) last October, and was awarded "The Excellence of Listed Enterprise Awards (傑出上市企業大獎)" by Capital Weekly (資本壹週) last December. Those awards demonstrated the community's recognition of the Group's continuous efforts and achievements in its development. We will continue to fulfill our responsibilities and increase our brand value in the future.

Prospects and Strategies

For the year 2015, which is the last year of China's "Twelfth Five-year Plan", will be the critical time for China to make an all-out effort to forge ahead with reform. The Central Economic Working Conference and Government Work Report 2015 have already set the goal of achieving steady progress in the country's development. As the country's economy has reached a new phase, the Chinese government will adopt new policies to stimulate consumption, making domestic demand the driver of the national economy. Mode of consumption will gradually become more diverse.

China's sustained economic expansion, ongoing urbanization, and rising household income will continue to drive the growth of the country's food industry. The execution of the state plan on new mode of urbanization for the period of 2014 to 2020 will accelerate the process. This, coupled with improvement of living standards and the change to the lifestyle of both the urban and rural residents, will stimulate the demand for meats, driving the overall consumption of processed meat products. On the other hand, the country is stepping up its economic restructuring, increasing its industrialization and the mechanization of its industries. The China Meat Association advocates that the meat enterprises change their mode of operation and restructure their businesses with the aim of enhancing the quality and efficiency of their development. It also states that enterprises should cease indiscriminate and rapid overexpansion, and adapt themselves to the conditions of the country's moderate economic growth. All these developments will foster the industry's healthy and steady development.

The production base of the Group is situated in Guangxi, which enjoys the national preferential policy on developing the country's western regions. According to the approval granted by the State Council for the Pearl River-West River economic belt which has been raised to the national strategic level the Group will be able to enjoy the preferential policies of the economic zone in the meantime, and is ready to grasp new opportunities for development. It is optimistic about the outlook of the market for collagen protein sausage casing products.

A new environment protection law was duly implemented in China in 2015, which sets out more stringent requirement in environment protection. As a result, obsolete environmental protection facilities could no longer meet the regulatory requirements. Similar to restriction and shut-down of small paper plant and electricity plant by the nation in the past, many small-scale gelatin production enterprises and sausage casing companies will face greater pressure, which bring new and promising development prospect for companies with sufficient funds and advanced environment protection technologies.

Health industry will gradually become a strategic and pillar industry in China. As the key components of health industry, quality food, health care products and medications have a bright future. The application and research of collagen in food, health care products and medications is developing rapidly. As the largest collagen enterprise equipped with unique technologies in China, the Group has more than 30 years of extensive experience in collagen research and development and taking the opportunity to create the collagen industry 4.0. Riding on its core technology in collagen, the Group is dedicated to build a safe, reliable and standardized production base designed for collagen material required by health industry, actively promote Industry 4.0 for collagen production to upgrade and transform the collagen industry and proactively promote the application of collagen in food, health care products and medications.

As the largest edible collagen protein sausage casing manufacturer in China, the Group is committed to maintaining its leading position in the industry. In 2015, the Group will enhance its overall competitiveness with collagen technology as its core competence by developing its businesses with perseverance and innovation and by enhancing its management and creating health business. Specifically, it will strengthen its leading position in China's market for collagen sausage casings and diversify its businesses.

Coupled with the increasing economic strength of China, a growing number of Chinese enterprises are seeking overseas merger opportunities, which will help the Group explore new overseas markets. The Group will grasp opportunities to expand its export sales. In addition, the Group will take full advantage of changes in the market and adopts flexible sales measures in order to maintain its leading position amid the competition with foreign competitors and domestic small-scale participants. As most of the products from the old production method and other older inventories have been sold out during 2014, the Group is more confident in its sales in 2015.

The Group strictly controls the recurring expenses, enhances the operating efficiency, raises the level of automation of the existing production lines and optimizes the energy-saving facilities in order to improve the operating efficiency at all of its production bases and save the human resources. In addition to saving the unit energy cost by the continuous use of the fourth-generation heat energy system, the Group will arrange the production in accordance with the seasons to reduce the energy consumption. Furthermore, it will regulate the utilization rate and increase period for the maintenance of the equipment to improve the product quality on one hand, and reduce the inventories to free up working capital on the other hand. In 2015, the Group has entered into stable raw material supply agreements with its raw material suppliers. The Group expects that the production costs will also remain stable in the year 2015.

Technology and product innovation are the key to the Group's success. Capitalizing on its core technologies of collagen and the most advanced collagen product examination centre, in addition to the continuous development and innovation in respect of existing sausage casing products, the Group will fully utilize the production qualifications and capabilities of medications and health care products of Guangxi Wuzhou Sanjian Pharmaceutical Company Limited (廣西梧州三箭製藥有限公司) ("Sanjian Pharmaceutical") which was acquired by the Group in 2015 as a platform to actively develop collagen material required by production of food, health care products and medications and promote the application of collagen products in health industry including edible gelatin, medicinal gelatin and cosmetics sector.

The Group plans to incur a capital expenditure of approximately RMB180.0 million in 2015 in the renovation of production equipment as well as in the extraction, and research and development of edible collagen to expand the usage of its core technology. The Group will also identify relevant companies or projects that have development potentials in the market for possible acquisitions, shareholding and investment, so as to develop the health business with collagen technology as its core competence.

The Group strongly believes that with its core technology of collagen and the implementation of products diversity strategy, its endeavors in technology innovation, products innovation and better corporate management will promote the sustainable development of the corporate and generate good returns to its shareholders.

Events Subsequent to the Period Under Review

On 26 January 2015, Wuzhou Shenguan entered into an equity transfer agreement with Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian ("Ms. Zhou"), an executive Director and one of the controlling shareholders of the Company, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in Sanjian Pharmaceutical at a consideration of RMB4.81 million. Upon completion of the acquisition, Sanjian Pharmaceutical will become a wholly-owned subsidiary of Wuzhou Shenguan. For details of the acquisition of Sanjian Pharmaceutical, please refer to the announcement of the Company dated 26 January 2015.

On 12 February 2015, the Company entered into the warrant placing agreement with China Investment Securities International Brokerage Limited (the "Placing Agent") in relation to the warrant placing, pursuant to which the Placing Agent agreed to place, on a best effort basis, up to 160,000,000 warrants conferring rights to subscribe for up to 160,000,000 warrants shares at the warrant exercise price of HK$3.00 per warrant share (subject to adjustment) to not less than six warrant placees who and their respective ultimate beneficial owners are independent third parties. Each warrant carries the right to subscribe for one warrant share. The warrants are to be placed at HK$0.001 each. The warrant shares will be allotted and issued under the general mandate granted to the Directors at the annual general meeting held on 19 May 2014. For details of the issuance of warrant shares, please refer to the announcements of the Company dated 12 February 2015 and 26 February 2015, respectively.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, adequate disclosure and accountability to all shareholders.

The Company's corporate governance practices are based on the code provisions as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Save as disclosed in this Corporate Governance Report, the Board considered that the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the Year.

Details of the Company's corporate governance are summarized below.

Board of Directors

Composition

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)*
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

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. Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings. The Company provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly. Meeting agenda accompanied by relevant Board/committee papers are distributed to the Directors/committee members with reasonable notice in advance of a Board meeting. Minutes of board meetings and meetings of board committees, which recorded in sufficient detail the matters considered by the Board and decisions reached thereat, including any concerns raised or dissenting views expressed by any Director, are kept by the company secretary and open for inspection by the Directors.

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

During the Period, the Board maintained a high level of independence, with one-third of the Board comprised of independent non-executive Directors, who had exercised independent judgments. The independent non-executive Directors are expressly identified in all corporate communications whenever the names of the Directors are disclosed.

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 Period, the Board held 7 meetings and the individual attendance of the Directors at the Board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	6/7
Ms. Cai Yueqing *(Note)*	3/3
Mr. Shi Guicheng	7/7
Mr. Ru Xiquan	7/7
Mr. Mo Yunxi	6/7
Mr. Low Jee Keong	7/7
Mr. Tsui Yung Kwok	7/7
Mr. Meng Qinguo	5/7
Mr. Yang Xiaohu	7/7

Note: Ms. Cai Yueqing retired as an executive Director on 1 June 2014, Ms. Cai attended 3 out of 3 Board meetings held during her tenure in the year ended 31 December 2014.

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 the independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and hence are independent to the Company. 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 2013 and may be terminated by either party by giving at least three months' written notice.

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.

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 but no chief executive officer appointed and the daily operations of the Group are delegated to other executive Directors, the management and various department heads. 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.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole. The Chairman meets at least annually with the Non-Executive Directors without the Executive Directors being present.

Appointment, Re-election and Removal of Directors

The Company has established the Nomination Committee on 19 September 2009. The Nomination Committee has from time to time identified individuals suitably qualified to become Board members and make recommendations to the Board. The main consideration in selecting candidates for directorships is whether their characters, qualifications and experiences are appropriate for the businesses of the Group.

Save and except for Ms. Cai Yueqing and Mr. Mo Yunxi, each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years commencing from 13 October 2012 and may be terminated by either party by giving not less than three months' prior written notice.

Ms. Cai Yueqing, an executive Director, has entered into a service contract with the Company commencing from 13 October 2013 to 31 May 2014 and may be terminated by either party by giving not less than three months' prior written notice. Ms. Cai retired as an executive Director on 1 June 2014.

Mr. Mo Yunxi, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 16 May 2012 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 2013 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.

Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Board Diversity Policy

The nomination committee of the Company has adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to diversity of members of the Board, which is summarised below:

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The nomination committee works to ensure a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and objectives. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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.

The Company have made specific enquiry of all Directors and all 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.

Corporate Governance Duties

The Board is responsible for performing the corporate governance duties as set out in code provision D.3.1 of the Code. During the Year, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

Induction and Professional Development

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 have been continuously updated with regulatory developments, business and market changes and the strategic development of the Group.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills. All Directors including Ms. Zhou Yaxian, Ms. Cai Yueqing, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi, Mr. Low Jee Keong, Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu, have participated in continuous professional development to develop and refresh their knowledge and skills and provided their training records for the Year to the Company.

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 make recommendation to the Board on the appointment, reappointment and removal of external auditor, review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, develop and implement policy on the engagement of an external auditor to supply non-audit services and monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and significant financial reporting judgments contained in them. 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 terms of reference of the Audit Committee is available on the website of the Stock Exchange and the Company as required by the Code.

During the Period, the Audit Committee had reviewed the 2013 final results, the 2014 interim results of the Group and the Group's internal controls for the Period. The Group's final results for the Period 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 has complied 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 2 meetings during the Period. Details of the attendance of the Audit Committee meetings are as follows:

	Attendance/ Meeting held
Mr. Tsui Yung Kwok *(Chairman)*	2/2
Mr. Meng Qinguo	1/2
Mr. Yang Xiaohu	2/2

Auditors' Remuneration

During the Period, 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	996
Audit services	1,937
	2,933

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 review the structure, size and composition (including gender, age, cultural and educational background, professional experience, length of service, skills, knowledge and experience) of the Board, identify individuals suitably qualified to become Board member, assess the independence of independent non-executive Directors and review the Board Diversity Policy and the progress on achieving the objectives set for implementing such policy. A summary of the Board Diversity Policy, which is adopted during the year, is set out in the section headed "Board Diversity Policy" in this Corporate Governance Report. 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 (including the skills, knowledge and experience) of the Board, assessing the independence of the independent non-executive Directors, reviewing the Company's Board Diversity Policy and the progress on achieving the objectives set for implementing such policy, and other related matters.

The terms of reference of the Nomination Committee has been revised respectively on 19 March 2012 and 19 August 2013 and is available on the website of the Stock Exchange and the Company as required by the Code.

The Nomination Committee held 2 meetings during the Period. Details of the attendance of the Nomination Committee meetings are as follows:

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

At the meeting, the Nomination Committee reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive Directors, formulated the Board Diversity Policy and recommended to the Board for approval 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 consult the chairman of the Board about their remuneration proposals for other executive Directors, make recommendation to the Board on the Company's remuneration policy and structure for all Directors' and senior management and make recommendation to the Board on the remuneration packages of individual Directors' and senior management. 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 Director is allowed to be involved in deciding his/her own remuneration.

The terms of reference of the Remuneration Committee is available on the website of the Stock Exchange and the Company as required by the Code.

The Remuneration Committee held 1 meeting during the Year. Details of the attendance of the Remuneration Committee meeting 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 and made recommendations to the Board on the remuneration policies of the Directors and the senior executives as well as the remuneration packages for the years 2013 and 2014 and performance of the Directors.

Remuneration of Directors and Senior Management

The Group has paid or accrued the amounts of approximately RMB4,087,000, RMB1,635,000, RMB1,678,000, RMB1,678,000, RMB1,678,000, RMB68,000, RMB187,000, RMB187,000 and RMB187,000 to Ms. Zhou Yaxian, Ms. Cai Yueqing (who has retired on 1 June 2014, but remained as a vice president of the Company), Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi, Mr. Low Jee Keong, Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu respectively, as Directors' remuneration, for the Year.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2014, there was no arrangement in which the Directors waived their remuneration.

Senior management's remuneration payment of the Group in the Year falls within the following bands:

	Number of Individuals
RMB1,000,000 or below	1
RMB1,000,001 to RMB2,000,000	1

Directors' and Auditors' Responsibility for the Financial Statements

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the Year. The auditors to the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the Year. 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.

Financial Controller

The financial controller of the Company (the "Financial Controller") is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with the Companies Ordinance, the Listing Rules and other relevant laws and regulations. The Financial Controller reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Controller will review the control of financial risks of the Group and provide advices thereon to the Board.

Company Secretary

Mr. Ng Yuk Yeung has been appointed as the company secretary of the Company (the "Company Secretary") with effect from 19 September 2009. The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and inside information.

The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Articles at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for fostering and managing the Group's investors relationship. The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

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 Period 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.

Investor Relations

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels such as seminars with the media, analysts and fund managers. Designated senior management holds regular dialogue with institutional investors and analysts which enables them to keep abreast of the Group's latest developments. In addition, the Group's website presents the most updated information and the status of the business development of the Group.

Save as disclosed in the section headed "Constitutional Documents", during the Year, the Company did not make any significant changes in its memorandum and articles of association.

General Meetings with Shareholders

The 2014 annual general meeting ("2014 AGM") was held on 19 May 2014. The attendance record of the Directors at the 2014 AGM is as follows:

	Attendance/ General Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	1/1
Ms. Cai Yueqing (Retired on 1 June 2014)	1/1
Mr. Shi Guicheng	1/1
Mr. Ru Xiquan	1/1
Mr. Mo Yunxi	1/1
Mr. Low Jee Keong	1/1
Mr. Tsui Yung Kwok	1/1
Mr. Meng Qinguo	1/1
Mr. Yang Xiaohu	1/1

The Company's external auditor also attended the 2014 AGM.

Communication with Shareholders

The Company and the senior management recognise the responsibility 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 18 May 2015.

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.

The Board and senior management also recognise the responsibility of safeguarding the interest of shareholders of the Company. The Company reports its financial and operating performance to shareholders through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Company's website http://www.shenguan.com.cn.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Hong Kong Office of the Company whose contact details are as follows:

Shenguan Holdings (Group) Limited
Unit 2902, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong
Attention: Mr. Ng Yuk Yeung

Procedures for Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings by Shareholders

Pursuant to Article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transactions of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) may do so in the same manner.

Pursuant to Article 85 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders may also contact the Company through the details as mentioned in the section headed "Procedures for Directing Shareholders' Enquiries to the Board" above for procedures for putting forward proposals at general meetings.

Constitutional Documents

During the Year, amendments have been made to the Articles in relation to the payment of interim dividends and special dividends out of the Share Premium Account (in addition to out of profit) in order to give greater flexibility to the Board to pay interim and special dividends. For details of the amendments, please refer to the circular of the Company dated 5 September 2014.

Save as disclosed above, there has been no material changes in the Company's constitutional documents during the Year.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhou Yaxian
Chairman of the Board and President of our Company

Aged 55, 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 35 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, 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, the "Technological Leaders in China Meat Industry" (中國肉類產業科技領軍人物) by the China Meat Association (中國肉類協會) in 2012, and the "Influential Entrepreneur of China Meat Product Industry" (中國肉類食品行業影響力企業家) by the China Meat Association (中國肉類協會) in 2013. 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 and Executive Director

Aged 59, Ms. Cai is primarily responsible for the Group's production management. She has nearly 22 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 and retired on 1 June 2014. After her retirement, she has remained as a vice president of the Company.

Mr. Shi Guicheng

Vice President and Executive Director

Aged 51, 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 22 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 and Executive Director

Aged 52, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 24 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.

Mr. Mo Yunxi

Vice President and Executive Director

Aged 46, Mr. Mo is primarily responsible for the Group's product and technology developments. He has long been engaged in product development and has nearly 22 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. He was appointed as a Director on 16 May 2012.

Non-Executive Director

Mr. Low Jee Keong

Aged 49, 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 22 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 46, 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 21 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), 361 Degrees International Limited (Hong Kong Stock Code: 01361) and Cabbeen Fashion Limited (Hong Kong Stock Code: 02030) since September 2010, September 2012 and February 2013, respectively, the shares of which are all listed on the Stock Exchange. 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 57, 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), and the Vice-Chairperson of Guangxi Law Society (廣西法學會). 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 February 2012, and he had been appointed as special legal consultant since March 2012, the shares of which are listed on the Shanghai Stock Exchange, and an independent director of Sealand Securities Co., Ltd. (國海證券有限責任公司) until December 2014, and he had been appointed as special legal consultant since January 2015, the shares of which are listed on the Shenzhen Stock Exchange. Mr. Meng was appointed as a Director on 19 September 2009.

Mr. Yang Xiaohu

Aged 40, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 16 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. Wen Jinpei

Vice President

Aged 53, Mr. Wen is primarily responsible for the Group's human resources, logistics, 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 41, 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 19 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 2014.

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 15 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 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 105.

An interim dividend of HK4.3 cents per ordinary share and a special dividend of HK3.2 cents per ordinary share were paid on 30 October 2014. The directors recommend the payment of a final dividend of HK4.1 cents per ordinary share for the Year to shareholders whose names appear on the register of members of the Company on 27 May 2015 (Wednesday) out of the share premium account of the Company. 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 10 June 2015 (Wednesday).

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 18 May 2015 (Monday), the register of members of the Company will be closed from 13 May 2015 (Wednesday) to 18 May 2015 (Monday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 12 May 2015 (Tuesday). 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 2015 (Friday) to 27 May 2015 (Wednesday), both dates inclusive. The record date will be 27 May 2015 (Wednesday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 21 May 2015 (Thursday). 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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, is set out on page 106. 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 authorised or issued share capital are set out in note 26 to the financial statements. There were no movements in the Company's share option during the Year.

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

During the Year, the Company purchased certain of its shares on the Hong Kong Stock Exchange and certain of these shares were subsequently cancelled by the Company. The summary details of those repurchases during the Year are as follows:

Month	Number of shares repurchased	Number of shares cancelled	Price per share Highest	Price per share Lowest	Total price paid
			HK$	*HK$*	*HK$*
September 2014	17,000,000	17,000,000	2.67	2.30	41,330,000
October 2014	2,300,000	2,300,000	2.40	2.08	5,060,000
November 2014	804,000	804,000	2.19	2.14	1,737,000
December 2014 *(Note)*	12,100,000	12,100,000	2.21	2.02	25,814,000
	32,204,000	32,204,000			73,941,000

Note: The 12,100,000 shares repurchased during December 2014 was subsequently cancelled on 6 February 2015.

32,204,000 of the shares repurchased during the Year were subsequently cancelled and HK$73,941,000 was paid for the repurchases of shares.

The purchase of the Company's shares during the Year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting held in 2014, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, 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 2014, the profit attributable to owners of the Company amounted to approximately RMB547,476,000. 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 2014, the Company had distributable reserves amounting to approximately RMB658,288,000, of which approximately RMB107,369,000 has been proposed as a final dividend for the Year, calculated in accordance with statutory provisions applicable in the Cayman Islands.

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

Charitable Contributions

During the Year, the Group made charitable contributions totalling RMB4,585,000.

Major Customers and Suppliers

During the Year, sales to the Group's five largest customers accounted for 50.5% of the total sales for the year and sales to the largest customer included therein amounted to 34.1%. Purchases from the Group's five largest suppliers accounted for 54.2% of total purchases for the Year and purchases from the largest supplier included therein amounted to 19.8%.

Wuzhou Junye Trademark Printing Material Co., Ltd ("Wuzhou Junye Printing Material") was one of the Group's five largest suppliers for the year ended 31 December 2014. As at the date of this report, the registered capital of Wuzhou Junye Printing Material was owned as to 99.2% by Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian ("Ms. Zhou"), an executive Director and one of the controlling shareholders of the Company, and 0.8% by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou.

Save as disclosed above, 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 and suppliers.

Emolument Policy

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

Directors

The Directors during the Year were:

Executive Directors:

Ms. Zhou Yaxian *(Chairman and President)*
Ms. Cai Yueqing (Retired on 1 June 2014)
Mr. Shi Guicheng
Mr. Ru Xiquan
Mr. Mo Yunxi

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 of association (the ''Articles'') of the Company, 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 28 to 31 of this report.

Directors' Service Contracts

Save and except for Mr. Mo Yunxi, each of the executive Directors and non-executive Director has entered into a service contract with the Company for a term of three years commencing from 13 October 2012 and may be terminated by either party by giving not less than three months' prior written notice.

Ms. Cai Yueqing, an executive Director, has entered into a service contract with the Company commencing from 13 October 2013 to 31 May 2014 and may be terminated by either party by giving not less than three months' prior written notice. Ms. Cai Yueqing retired as an executive Director on 1 June 2014.

Mr. Mo Yunxi, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 16 May 2012 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 2013 and may be terminated by either party by giving at least three months' written notice.

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' 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 33 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 to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

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.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 31 December 2014, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (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 Issuers (the "Model Code") were as follows:

1. Interests and Short Position in the Shares (the "Shares") of the Company

Name of Director	Capacity/Nature	No. of shares held/ interested in	Approximate percentage of issued share capital of the Company
Ms. Zhou Yaxian ("Ms. Zhou")	Interest of controlled corporation *(Note 2)*	2,159,980,000 (L)	65.37%
	Beneficial owner	200,000 (L)	0.01%
Mr. Low Jee Keong ("Mr. Low")	Interest of controlled corporation *(Note 4)*	78,936,000 (L)	2.39%
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	800,000 (L)	0.02%
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	800,000 (L)	0.02%
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	800,000 (L)	0.02%
Mr. Mo Yunxi	Beneficial owner *(Note 3)*	800,000 (L)	0.02%

2. Interests and Short Position in the Underlying Shares

Name of Director	Capacity/Nature	No. of shares held/ interested in	Approximate percentage of issued share capital of the Company
Ms. Cai Yueqing	Beneficial owner *(Note 3)*	1,200,000 (L)	0.04%
Mr. Shi Guicheng	Beneficial owner *(Note 3)*	1,200,000 (L)	0.04%
Mr. Ru Xiquan	Beneficial owner *(Note 3)*	1,200,000 (L)	0.04%
Mr. Mo Yunxi	Beneficial owner *(Note 3)*	1,200,000 (L)	0.04%

3. Long Position in the Ordinary Shares of Associated Corporations

Name of Director	Name of the associated corporation	Capacity/Nature	No. of shares held/ interested in	Approximate percentage of interest in the associated corporation
Ms. Zhou	Rich Top Future	Interest of controlled Corporation *(Note 2)*	65,454	65.45%
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.

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 2014, none of the Directors or chief executives of the Company had registered any interests or short position 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 2014, 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 held/ interested in	Approximate percentage of issued share capital of the Company
Rich Top Future	Beneficial owner	1,908,240,000 (L)	57.76%
Xian Sheng	Beneficial owner	248,040,000 (L)	7.51%
Glories Site	Interest of controlled Corporation *(Note 2)*	1,908,240,000 (L)	57.76%
Hong Kong Shenguan	Interest of controlled Corporation *(Note 3)*	2,156,280,000 (L)	65.26%
	Beneficial owner	3,700,000 (L)	0.11%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse *(Note 4)*	2,160,180,000 (L)	65.38%

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. Ms. Zhou beneficially owns 200,000 shares. 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, at 31 December 2014, 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

On 26 January 2015, Wuzhou Shenguan entered into an equity transfer agreement with Mr. Sha, the spouse of Ms. Zhou, the Chairman of the Board and an executive Director, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in Guangxi Wuzhou Sanjian Pharmaceutical Company Limited (廣西梧州三箭製藥有限公司) ("Sanjian Pharmaceutical") at a consideration of RMB4,810,000 (the "Acquisition"). Upon completion of the Acquisition, Sanjian Pharmaceutical has become a wholly-owned subsidiary of Wuzhou Shenguan.

Subsequent to the Acquisition, Guangxi Wuzhou Shennong Pharmaceutical co., Ltd (廣西梧州神農藥業有限公司), a joint venture which is owned as to 72% by Ms. Zhou and is principally engaged in the manufacture and sale of pharmaceutical products in the PRC, has become a competing business of Ms. Zhou with the Group.

As disclosed in the prospectus issued by the Company dated 30 September 2009, in relation to the Deed of Non-Competition, pursuant to which when business opportunities which may compete with the business of the Group arise, Ms. Zhou or any of her associates shall offer to the Company the right of first refusal to take up such business opportunities.

As such, pursuant to the deed of non-competition dated 19 September 2009 entered into by Ms. Zhou in favour of the Company, Ms. Zhou served a written notice to the Company on 8 January 2015 in respect of such matter and offered to the Company the right of first refusal to acquire 72% equity interest in Shennong Pharmaceutical for a consideration of RMB17,000,000 and seeked the Company's decision as to whether it will exercise its right of first refusal to acquire the said 72% equity interests in Shennong Pharmaceutical.

The Directors (excluding Ms. Zhou who had abstained from voting) were of the opinion that it was not appropriate and was not in the best interests of the Company and the Shareholders as a whole, for the Company to exercise the Right of First Refusal.

For details of the transaction and non-exercise of right of first refusal, please refer to the announcement of the Company dated 26 January 2015.

Save as disclosed above, none of the Directors and their associates, 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 and Mr. Wei Cheng in three deeds of non-competition respectively entered into by Ms. Zhou, Mr. Low and Mr. Wei Cheng, all dated 19 September 2010. Ms. Zhou, Mr. Low 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 2014, 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 and Mr. Wei Cheng during the same period.

Share Option Scheme

In order to attract and retain the eligible persons, provide additional incentive to them and 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 date of listing of the Company's shares (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 any time.

The total number of securities available for issue under the Scheme as at the date of this report was 315,880,000 Shares which represented approximately 9.6% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

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

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

Name or category of participant	At 1 January 2014	Granted during the year	Exercised during the year	Expired/ Forfeited during the year	At 31 December 2014	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
	Number of share options									
Directors										
Ms. Cai Yueqing	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
(Retired on	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
1 June 2014)	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	1,200,000	–	–	–	1,200,000					
Mr. Shi Guicheng	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
	1,200,000	–	–	–	1,200,000					
Mr. Ru Xiquan	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
	1,200,000	–	–	–	1,200,000					
Mr. Mo Yunxi	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
	1,200,000	–	–	–	1,200,000					
	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
	400,000	–	–	–	400,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2011	12 Oct 2015	2.165	2.165
	800,000	–	–	–	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	800,000	–	–	–	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	800,000	–	–	–	800,000	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	3,080,000	–	–	–	3,080,000					
	7,880,000	–	–	–	7,880,000					

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

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

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The price shown above have been adjusted to reflect the bonus issue in 2011.*

*** *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 issue in 2011.*

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 27 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 continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Continuing Connected Transactions

The Group carried out or entered into the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.76 of the Listing Rules) during the Year:

(i) Transactions with Wuzhou Junye Printing Material

On 2 December 2011, Wuzhou Shenguan Protein Casing Co., Ltd. ("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 sale of inner packaging materials to the Group for a term ending on 31 December 2014. The purchases by the Group from Wuzhou Junye Printing Material under the said agreement for the year amounted to RMB22,210,000 and the annual cap set in the said agreement for the year is RMB45,820,000.

On 22 December 2014, the Company entered into a sale and purchase agreement with Wuzhou Junye Printing Material, pursuant to which Wuzhou Junye Printing Material agrees to supply packaging materials to the Company (or any one or more of its subsidiaries) for a term of three years commencing from 1 January 2015 and ending on 31 December 2017.

Wuzhou Junye Printing Material is owned by Mr. Sha, the spouse of Ms. Zhou, as to 99.2% and by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, as to 0.8%. 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 Wuzhou Zhongbo Packaging Co., Ltd.

On 2 December 2011, Wuzhou Shenguan, as purchaser, and Wuzhou Zhongbo Packaging Co., Ltd. ("Wuzhou Zhongbo Packaging"), as seller, entered into a sale and purchase agreement for the sale of inner packaging materials to the Group for a term ending on 31 December 2014. The purchases by the Group from Wuzhou Zhongbo Packaging under the said agreement for the year amounted to RMB7,303,000 and the annual cap set in the said agreement for the year is RMB11,240,000.

On 22 December 2014, the Company entered into a sale and purchase agreement with Wuzhou Zhongbo Packaging, pursuant to which Wuzhou Zhongbo Packaging agrees to supply packaging materials to the Company (or any one or more of its subsidiaries) for a term of three years commencing from 1 January 2015 and ending on 31 December 2017.

Wuzhou Zhongbo Packaging is owned by Mr. Sha, the spouse of Ms. Zhou, as to 86.67% and by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou, as to 13.33%. 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.

(iii) Transactions with LJK Frozen SDN. BHD (formerly known as "Exceltech Enterprise SDN. BHD.")

On 2 December 2011, LJK Frozen SDN. BHD ("LJK"), as purchaser, and Wuzhou Shenguan, as seller, entered into a sale and purchase agreement for the sale of the Group's products for a term ending on 31 December 2014. The sales from the Group to LJK under the said agreement for the year amounted to USD958,000 and the annual cap set in the said agreement for the year is USD3,090,000.

On 22 December 2014, the Company entered into a sale and purchase agreement with LJK and Exceltech Global Investment Pte Limited ("Exceltech"), pursuant to which the Company (or any one or more of its subsidiaries) agrees to supply collagen sausage casing products to LJK and Exceltech for a term of three years commencing from 1 January 2015 and ending on 31 December 2017.

LJK is owned by Mr. Low, a Director, as to 80% and Exceltech is wholly owned by Mr. Low. Therefore, each of LJK and Exceltech is a connected person of the Company under Chapter 14A of the Listing Rules.

(iv) Transactions with Ample Company LLC

On 2 December 2011, Ample Company LLC ("Ample"), as purchaser, and Wuzhou Shenguan, as seller, entered into a sale and purchase agreement for the sale of the Group's products for a term ending on 31 December 2014. The sales from the Group to Ample under the said agreement from 1 January 2014 to 30 June 2014 amounted to USD952,000 and the annual cap set in the said agreement for the year is USD3,500,000 after the supplemental agreement was entered into between Ample and Wuzhou Shenguan on 20 December 2012.

Ample is an entity registered in the U.S. and is owned by Mr. Wei Cheng, as to 50% and Mr. Wei Cheng's wife, as to 50%. Mr. Wei is a director of subsidiaries of the Company. Ample is therefore a connected person of the Company under Chapter 14A of the Listing Rules (before the amendment on 1 July 2014), but Ample is no longer considered as a connected person under the revised Chapter 14A of the Listing Rules which becomes effective on 1 July 2014.

For further details of the transactions stated in (i), (ii), (iii) and (iv) above, please refer to the announcement issued by the Company on 2 December 2011. For the revision of the annual cap of the transaction stated in (iv) above, please refer to the announcement issued by the Company on 20 December 2012.

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 are exempted under Rule 14A.76 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 are exempted under Rule 14A.76 of the Listing Rules) by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Related Party Transaction

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 33(a) and (c) to the financial statements are "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules but are exempted from the reporting, announcement or independent shareholders' approval requirements under the Listing Rules, and the related party transactions disclosed in note 33(b) to the financial statements are not regarded as connected transactions or continuing connected transactions under the Listing Rules.

Corporate Governance

The Company has applied the code provisions set out in 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 2014, save for the exceptions explained in the Corporate Governance Report in this report.

Sufficiency of Public Float

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

Auditors

Ernst & Young will retire as auditors of the Company and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhou Yaxian
Chairman

Hong Kong
20 March 2015

INDEPENDENT AUDITORS' REPORT

EY 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 47 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
20 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	4	1,403,008	1,654,492
Cost of sales		(633,214)	(687,010)
Gross profit		769,794	967,482
Other income and gains, net	4	38,359	72,597
Selling and distribution expenses		(17,743)	(22,039)
Administrative expenses		(99,663)	(77,860)
Finance costs, net	6	(14,610)	(6,360)
PROFIT BEFORE TAX	5	676,137	933,820
Income tax expense	9	(128,661)	(162,543)
PROFIT FOR THE YEAR		547,476	771,277
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		1,078	(10,899)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		548,554	760,378
Profit attributable to owners of the Company	10	547,476	771,277
Total comprehensive income attributable to owners of the Company		548,554	760,378
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		
Basic (RMB cents per share)		16.5	23.2
Diluted (RMB cents per share)		16.5	23.2

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,338,270	1,405,575
Prepaid land lease payments	14	122,292	115,634
Contract in progress	16	124,249	98,082
Deferred tax assets	17	52,126	31,000
Long term prepayments		6,866	28,828
Total non-current assets		1,643,803	1,679,119
CURRENT ASSETS			
Inventories	18	847,065	500,306
Trade and bills receivables	19	199,639	218,075
Prepayments, deposits and other receivables	20	62,808	90,145
Held-to-maturity investments	21	–	55,983
Tax recoverable		–	17
Pledged deposits	22	546,044	–
Cash and cash equivalents	22	399,585	641,412
Total current assets		2,055,141	1,505,938
CURRENT LIABILITIES			
Trade payables	23	98,178	108,539
Other payables and accruals	24	105,467	170,305
Interest-bearing bank borrowings	25	783,144	200,000
Tax payable		11,632	22,255
Total current liabilities		998,421	501,099
NET CURRENT ASSETS		1,056,720	1,004,839
TOTAL ASSETS LESS CURRENT LIABILITIES		2,700,523	2,683,958
NON-CURRENT LIABILITIES			
Deferred income		35,347	38,029
Deferred tax liabilities	17	29,571	1,871
Total non-current liabilities		64,918	39,900
Net assets		2,635,605	2,644,058

	Notes	2014 RMB'000	2013 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*26*	**28,425**	28,584
Reserves	*28(a)*	**2,607,180**	2,615,474
Total equity		**2,635,605**	2,644,058

Zhou Yaxian
Director

Ru Xiquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

		Attributable to owners of the Company									
	Notes	Issued capital *RMB'000*	Share premium account *RMB'000*	Contributed surplus *RMB'000* *(note 28(a)(i))*	Reserve funds *RMB'000* *(note 28(a)(ii))*	Capital reserves *RMB'000*	Employee share-based compensation reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Other reserves *RMB'000* *(note 28(a)(iii))*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2013		28,584	1,172,520	59	228,080	4,758	4,574	(64,137)	(264,343)	1,234,688	2,344,783
Profit for the year		–	–	–	–	–	–	–	–	771,277	771,277
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(10,899)	–	–	(10,899)
Total comprehensive income for the year		–	–	–	–	–	–	(10,899)	–	771,277	760,378
Equity-settled share option arrangements	27	–	–	–	–	–	623	–	–	–	623
Final 2012 dividend		–	–	–	–	–	–	–	–	(174,680)	(174,680)
Final special 2012 dividend		–	–	–	–	–	–	–	–	(88,684)	(88,684)
Interim 2013 dividend	11	–	–	–	–	–	–	–	–	(124,307)	(124,307)
Interim special 2013 dividend	11	–	–	–	–	–	–	–	–	(74,055)	(74,055)
Transfer from retained profits		–	–	–	89,449	–	–	–	–	(89,449)	–
At 31 December 2013		28,584	1,172,520*	59*	317,529*	4,758*	5,197*	(75,036)*	(264,343)*	1,454,790*	2,644,058

		Attributable to owners of the Company										
	Notes	Issued capital *RMB'000*	Share premium account *RMB'000*	Contributed surplus *RMB'000* *(note 28(a)(i))*	Reserve funds *RMB'000* *(note 28(a)(ii))*	Capital reserves *RMB'000*	Employee share-based compensation reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Other reserves *RMB'000* *(note 28(a)(iii))*	Treasury shares *RMB'000* *(note 28(a)(iv))*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2014		28,584	1,172,520	59	317,529	4,758	5,197	(75,036)	(264,343)	–	1,454,790	2,644,058
Profit for the year		–	–	–	–	–	–	–	–	–	547,476	547,476
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	1,078	–	–	–	1,078
Total comprehensive income for the year		–	–	–	–	–	–	1,078	–	–	547,476	548,554
Share repurchase	*28(a)(iv)*	–	–	–	–	–	–	–	–	(58,529)	–	(58,529)
Cancellation of shares repurchased	*28(a)(iv)*	(159)	(37,967)	–	–	–	–	–	–	38,126	–	–
Equity-settled share option arrangements	*27*	–	–	–	–	–	247	–	–	–	–	247
Final 2013 dividend	*11*	–	(183,717)	–	–	–	–	–	–	–	–	(183,717)
Final special 2013 dividend	*11*	–	(118,104)	–	–	–	–	–	–	–	–	(118,104)
Interim 2014 dividend	*11*	–	(112,892)	–	–	–	–	–	–	–	–	(112,892)
Interim special 2014 dividend	*11*	–	(84,012)	–	–	–	–	–	–	–	–	(84,012)
Transfer from retained profits		–	–	–	33,152	–	–	–	–	–	(33,152)	–
At 31 December 2014		28,425	635,828*	59*	350,681*	4,758*	5,444*	(73,958)*	(264,343)*	(20,403)*	1,969,114*	2,635,605

* *These reserve accounts comprise the consolidated reserves of RMB2,607,180,000 (2013: RMB2,615,474,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		676,137	933,820
Adjustments for:			
Interest on bank loans	6	17,702	10,193
Bank interest income	4	(16,283)	(13,407)
Interest income from held-to-maturity investments	4	(2,387)	(2,790)
Gain on disposal of financial assets at fair value through profit or loss	4	(12,006)	(11,897)
Fair value losses on derivative financial instruments, net			
– transactions not qualifying as hedges	5	–	2,906
Loss on disposal of items of property, plant and equipment, net	5	2,442	140
Depreciation	5	89,982	72,977
Amortisation of prepaid land lease payments	5	2,541	2,355
Government grants released		(13,713)	(25,194)
Equity-settled share option expense	5	247	623
Exchange gain on intercompany loans		–	(11,150)
		744,662	958,576
Increase in inventories		(346,759)	(294,810)
(Increase)/decrease in trade and bills receivables		18,373	(32,081)
(Increase)/decrease in prepayments, deposits and other receivables		16,893	(35,005)
Increase/(decrease) in trade payables		(10,361)	67,868
Decrease in other payables and accruals		(31,543)	(53,317)
Receipt of government grants		11,030	26,092
Cash generated from operations		402,295	637,323
Interest received		11,244	11,237
PRC corporate income tax paid		(132,693)	(181,089)
Net cash flows from operating activities		280,846	467,471
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(45,202)	(194,700)
Proceeds from disposal of items of property, plant and equipment		429	22
Increase in contract in progress		(13,000)	(7,070)
Prepayments of land lease payments		–	(12,892)
Redemption of held-to-maturity investments		58,370	–
Net increase in financial assets at fair value through profit or loss		12,006	11,897
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		110,000	(100,000)
(Increase)/decrease in pledged deposits		(546,044)	164,000
Settlement of derivative financial instruments		–	(5,291)
Net cash flows used in investing activities		(423,441)	(144,034)

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		785,350	200,000
Repayment of bank loans		(200,000)	(227,160)
Interest paid		(17,402)	(13,850)
Share repurchase	28(a)(iv)	(58,529)	–
Dividends paid		(498,725)	(461,726)
Net cash flows from/(used in) financing activities		10,694	(502,736)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(131,901)	(179,299)
Cash and cash equivalents at beginning of year		531,412	710,460
Effect of foreign exchange rate changes, net		74	251
CASH AND CASH EQUIVALENTS AT END OF YEAR		399,585	531,412
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	311,522	371,210
Non-pledged time deposits with original maturity of less than three months when acquired		88,063	160,202
Cash and cash equivalents as stated in the consolidated statement of cash flows		399,585	531,412
Non-pledged time deposits with original maturity of over three months when acquired		–	110,000
Cash and cash equivalents as stated in the consolidated statement of financial position	22	399,585	641,412

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	393,981	807,370
CURRENT ASSETS			
Amounts due from subsidiaries	15	323,451	451,709
Prepayments, deposits and other receivables	20	104	352
Bank balances	22	29,550	3,577
Total current assets		353,105	455,638
CURRENT LIABILITIES			
Amounts due to subsidiaries	15	34,826	3,848
Other payables	24	397	390
Total current liabilities		35,223	4,238
NET CURRENT ASSETS		317,882	451,400
Net assets		711,863	1,258,770
EQUITY			
Issued capital	26	28,425	28,584
Reserves	28(b)	683,438	1,230,186
Total equity		711,863	1,258,770

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 P.O. Box 2681, Cricket Square, Hutchins Drive, 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 ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements 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 2014. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 Basis of Presentation (Continued)

Basis of consolidation (Continued)

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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendments to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendments to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendments to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendments to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRSs*

1 Effective from 1 July 2014

2.2 Changes in Accounting Policies and Disclosures (Continued)

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments have had no impact on the financial position or performance of the Group.

(d) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

(e) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

2.2 Changes in Accounting Policies and Disclosures (Continued)

(f) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

(g) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.

(h) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 New and Revised HKFRSs and New Disclosure Requirements under the Hong Kong Companies Ordinance not yet adopted

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

Amendments to HKAS 1	*Disclosure Initiative*[2]
HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS28 (2011)	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

2.3 New and Revised HKFRSs and New Disclosure Requirements under the Hong Kong Companies Ordinance not yet adopted (Continued)

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is the process of making an assessment of the impact of these changes.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

2.3 New and Revised HKFRSs and New Disclosure Requirements under the Hong Kong Companies Ordinance not yet adopted (Continued)

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss 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 an 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 profit or loss in the period in which it arises.

2.4 Summary of Significant Accounting Policies (Continued)

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 control 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 profit or loss 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 including 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 profit or loss 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 is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds 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.

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 operating leases net of any incentives received from the lessor are charged to profit or loss 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.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded 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.

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 and financial assets designated upon initial recognition as at fair value through profit or loss. 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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

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

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 other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss 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 other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- 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; and 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. 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 write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

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

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

Subsequent measurement of 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 profit or loss 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 profit or loss.

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 profit or loss.

Offsetting of financial instruments

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

2.4 Summary of Significant Accounting Policies (Continued)

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

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 profit or loss.

Income tax

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

Current tax assets and liabilities 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 country in which the Group operates.

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

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

- 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 the reporting period.

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over 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.

Land development investment contract

The Group has entered into a land development investment contract with a local government in the People's Republic of China (the "PRC") and is responsible for the demolition, relocation and land acquisition compensation fees with respect to certain land parcels in Wuzhou during the period of land development.

Pursuant to the land development investment contract, upon completion of the necessary construction works of each land parcel, the Group will be entitled to certain portion of sale proceeds arising from the sale of the relevant land parcel by the local government through public auctions.

Costs incurred by the Group in connection with the land development investment contract comprises mainly the costs related to demolition, relocation and land acquisition compensation fees during the period of land development and are classified as "Contract in progress".

Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled in employee benefit expense. 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 profit or loss 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 payments (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 payments, 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

Pension Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss 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.

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

The costs of employee retirement benefits are recognised as cost of sales and administrative expenses in profit or loss in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. 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.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

The functional currency of the Company is the 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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 prevailing at the end of the reporting period and their profit or loss 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 operation with functional currency other than RMB, the component of other comprehensive income relating to that particular operation is recognised in profit or loss.

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 these group companies 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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of trade and bills 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 and bills 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 involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which the estimate has been changed.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Income tax

The Group is subject to income taxes in the PRC and Hong Kong. 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.

2.5 Significant Accounting Estimates (Continued)

Estimation uncertainty (Continued)

Withholding taxes

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 in Mainland China. The requirement is effective from 1 January 2018 and applies to earnings after 31 December 2007. 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 2018.

As at 31 December 2014, the Group has unremitted earning that are subject to withholding taxes amounted to approximately RMB1,644,922,000. In the opinion of the directors, the Company is able to control the timing of the reversal of the temporary difference and it is not probable that these subsidiaries established in Mainland China will distribute such earnings in the foreseeable future. Accordingly, no deferred tax has been recognised for withholding taxes that would be payable on distribution of unremitted earnings by the Group's subsidiaries established in Mainland China in respect of earnings generated.

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

Geographical information is not presented since over 90% of the Group's revenue is derived from external customers based in the PRC and over 90% of the Group's non-current assets are located in the PRC. Accordingly, in the opinion of directors of the Company, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about a major customer

For the year ended 31 December 2014, revenue generated from a customer of the Group, excluding value added tax, amounting to RMB478,165,000 (2013: RMB510,178,000) has individually accounted for over 10% of the Group's total revenue.

4. Revenue, Other Income and Gains, Net

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

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

	Group	
	2014	2013
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,403,008**	1,654,492
Other income, net		
Bank interest income	**16,283**	13,407
Interest income from held-to-maturity investments	**2,387**	2,790
Sale of dried meat products	**403**	246
Government grants*	**5,888**	22,019
Others	**1,392**	2,232
	26,353	40,694
Gains		
Foreign exchange gains	**–**	20,006
Gain on disposal of financial assets at fair value through profit or loss	**12,006**	11,897
	12,006	31,903
Total other income and gains, net	**38,359**	72,597

* *Various government grants have been received in respect of significant tax contribution, 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 2014 (2013: Nil).*

5. Profit Before Tax

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

	Notes	2014 RMB'000	2013 RMB'000
Employee benefit expense (including directors' remuneration *(note 7)*):			
Wages and salaries		**104,773**	118,153
Equity-settled share option expense	*27*	**247**	623
Retirement benefit contributions		**32,281**	13,815
		137,301	132,591
Auditors' remuneration		**1,937**	1,937
Cost of inventories sold		**265,841**	295,456
Depreciation	*13*	**89,982**	72,977
Amortisation of prepaid land lease payments	*14*	**2,541**	2,355
Minimum lease payments under operating leases in respect of buildings		**1,009**	815
Loss on disposal of items of property, plant and equipment, net		**2,442**	140
Impairment of trade and bills receivables	*19*	**9,688**	464
Fair value losses on derivative financial instruments, net – transactions not qualifying as hedges		**–**	2,906
Foreign exchange differences, net		**205**	(20,006)

6. Finance Costs, Net

	Group	
	2014 RMB'000	2013 RMB'000
Interest on bank loans wholly repayable within five years	**17,702**	10,193
Arrangement fee	**4,733**	–
Less: Government grants*	**(7,825)**	(3,175)
Interest capitalised	**–**	(658)
	14,610	6,360

* *Various government grants have been received in respect of interest expenses incurred for the purchase of certain raw materials in 2014 and the acquisition of certain plant and equipment in 2013. The government grants received were deducted against related interest expenses when the conditions of the government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2014 (2013: Nil).*

7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group	
	2014	2013
	RMB'000	*RMB'000*
Fees	**929**	948
Other emoluments:		
Salaries, allowances and benefits in kind	**2,316**	2,324
Discretionary performance-related bonuses*	**7,968**	7,721
Equity-settled share option expense	**164**	415
Retirement benefit contributions	**8**	20
	10,456	10,480
	11,385	11,428

* *Executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit before tax of the Group.*

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 27 to the financial statements. The fair value of these options, which has been recognised in profit or loss 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:

	2014	2013
	RMB'000	*RMB'000*
Mr. Tsui Yung Kwok	**187**	180
Mr. Meng Qinguo	**187**	180
Mr. Yang Xiaohu	**187**	180
	561	540

There were no other emoluments payable to the independent non-executive directors during the year (2013: 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
2014						
Executive directors:						
Ms. Zhou Yaxian	68	953	3,064	–	2	4,087
Ms. Cai Yueqing*	28	340	1,226	41	–	1,635
Mr. Shi Guicheng	68	341	1,226	41	2	1,678
Mr. Ru Xiquan	68	341	1,226	41	2	1,678
Mr. Mo Yunxi	68	341	1,226	41	2	1,678
	300	2,316	7,968	164	8	10,756
Non-executive director:						
Mr. Low Jee Keong	68	–	–	–	–	68
	368	2,316	7,968	164	8	10,824
2013						
Executive directors:						
Ms. Zhou Yaxian	68	955	2,969	–	5	3,997
Ms. Cai Yueqing	68	340	1,188	104	–	1,700
Mr. Shi Guicheng	68	343	1,188	104	5	1,708
Mr. Ru Xiquan	68	343	1,188	104	5	1,708
Mr. Mo Yunxi	68	343	1,188	103	5	1,707
	340	2,324	7,721	415	20	10,820
Non-executive director:						
Mr. Low Jee Keong	68	–	–	–	–	68
	408	2,324	7,721	415	20	10,888

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2013: Nil).

* *Retired on 1 June 2014*

8. Five Highest Paid Employees

The five highest paid employees during the year included five directors (2013: five directors), details of whose remuneration are set out in note 7 above.

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.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") and Wuzhou Shensheng Collagen Products Co., Ltd., being the Company's wholly-owned subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are 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).

	2014 ***RMB'000***	2013 *RMB'000*
Group:		
Current tax charge for the year		
– PRC	**121,281**	179,637
– Hong Kong	**806**	–
Deferred tax *(note 17)*	**6,574**	(17,094)
Total tax charge for the year	**128,661**	162,543

9. Income Tax Expense (Continued)

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

Group – 2014

	Mainland China		Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	**669,937**		**6,200**		**676,137**	
Tax at the statutory tax rates	**167,484**	**25.0**	**1,022**	**16.5**	**168,506**	**24.9**
Lower tax rate for specific province or enacted by local authority	**(66,993)**		**–**		**(66,993)**	
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**27,700**		**–**		**27,700**	
Expenses not deductible for tax	**1,073**		**1,430**		**2,503**	
Income not subject to tax	**(1,409)**		**(439)**		**(1,848)**	
Tax losses utilised from previous years	**–**		**(1,207)**		**(1,207)**	
Tax charge at the Group's effective rate	**127,855**	**19.1**	**806**	**13.0**	**128,661**	**19.0**

Group – 2013

	Mainland China		Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	927,598		6,222		933,820	
Tax at the statutory tax rates	231,900	25.0	1,027	16.5	232,927	24.9
Lower tax rate for specific province or enacted by local authority	(92,759)		–		(92,759)	
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	21,078		–		21,078	
Expenses not deductible for tax	3,849		626		4,475	
Income not subject to tax	(1,525)		(1,833)		(3,358)	
Tax loss not recognised	–		180		180	
Tax charge at the Group's effective rate	162,543	17.5	–	–	162,543	17.4

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2014 includes a loss of RMB4,585,000 which has been dealt with in the financial statements of the Company (note 28(b)).

11. Dividends

	2014 ***RMB'000***	2013 *RMB'000*
Interim dividend – HK4.3 cents (2013: HK4.7 cents) per ordinary share	**112,892**	124,307
Interim special dividend – HK3.2 cents (2013: HK2.8 cents) per ordinary share	**84,012**	74,055
Final dividend proposed subsequent to the reporting period – HK4.1 cents (2013: HK7.0 cents) per ordinary share	**107,369**	183,717
Final special dividend proposed subsequent to the reporting period – Nil (2013: HK4.5 cents) per ordinary share	**–**	118,104
	304,273	500,183

The final dividend for the year ended 31 December 2014 proposed subsequent to the reporting period has not been recognised as a liability at the end of the reporting period and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary owners of the Company of RMB547,476,000 (2013: RMB771,277,000) and the weighted average number of 3,318,848,000 ordinary shares (2013: 3,324,120,000) in issue during the year.

The weighted average number of ordinary shares used in the calculation for the year ended 31 December 2013 is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of 2,912,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2014 in respect of a dilution as the impact of the share options outstanding had no dilutive effect on the basic earnings per share amounts presented.

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 2014					
At 31 December 2013 and 1 January 2014:					
Cost	485,202	964,083	17,739	207,936	1,674,960
Accumulated depreciation	(51,259)	(211,122)	(7,004)	–	(269,385)
Net carrying amount	433,943	752,961	10,735	207,936	1,405,575
At 1 January 2014, net of accumulated depreciation	433,943	752,961	10,735	207,936	1,405,575
Additions	670	15,147	299	9,432	25,548
Disposals	–	(2,871)	–	–	(2,871)
Depreciation provided during the year	(16,845)	(71,586)	(1,551)	–	(89,982)
Transfers	28,951	71,127	–	(100,078)	–
At 31 December 2014, net of accumulated depreciation	446,719	764,778	9,483	117,290	1,338,270
At 31 December 2014:					
Cost	514,823	1,042,966	18,038	117,290	1,693,117
Accumulated depreciation	(68,104)	(278,188)	(8,555)	–	(354,847)
Net carrying amount	446,719	764,778	9,483	117,290	1,338,270

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 2013					
At 1 January 2013:					
Cost	409,390	716,421	17,140	297,493	1,440,444
Accumulated depreciation	(37,276)	(153,762)	(5,680)	–	(196,718)
Net carrying amount	372,114	562,659	11,460	297,493	1,243,726
At 1 January 2012, net of accumulated depreciation	372,114	562,659	11,460	297,493	1,243,726
Additions	7,221	44,811	639	182,317	234,988
Disposals	–	(156)	(6)	–	(162)
Depreciation provided during the year	(13,982)	(57,503)	(1,492)	–	(72,977)
Transfers	68,590	203,150	134	(271,874)	–
At 31 December 2013, net of accumulated depreciation	433,943	752,961	10,735	207,936	1,405,575
At 31 December 2013:					
Cost	485,202	964,083	17,739	207,936	1,674,960
Accumulated depreciation	(51,259)	(211,122)	(7,004)	–	(269,385)
Net carrying amount	433,943	752,961	10,735	207,936	1,405,575

14. Prepaid Land Lease Payments

	Group	
	2014 RMB'000	2013 RMB'000
Carrying amount at 1 January	**117,984**	108,640
Additions during the year	**9,468**	11,699
Recognised during the year	**(2,541)**	(2,355)
Carrying amount at 31 December	**124,911**	117,984
Current portion included in prepayments, deposits and other receivables	**(2,619)**	(2,350)
Non-current portion	**122,292**	115,634

The parcels of leasehold land are situated in Mainland China and are held under medium term leases.

15. Investments in Subsidiaries

	Company	
	2014 *RMB'000*	2013 *RMB'000*
Unlisted shares, at cost	**154,531**	152,955
Advances to subsidiaries	**231,750**	647,038
Capital contribution in respect of employee share-based compensation	**7,700**	7,377
	393,981	807,370

The amounts advanced to the subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as part of the Company's investments in its subsidiaries.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB323,451,000 (2013: RMB451,709,000) and RMB34,826,000 (2013: RMB3,848,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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	US$1	100%	–	Investment holding
Jumbo Gain Developments Limited	BVI	US$1	100%	–	Investment holding
Shenguan Industrial Company Limited	BVI	US$10,000	100%	–	Investment holding
Shenguan Investments Company Limited	Hong Kong	HK$0.01	–	100%	Sale of collagen sausage casing
梧州神冠蛋白腸衣有限公司 ("Wuzhou Shenguan Protein Casing Co., Ltd.")*/^	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 ("Wuzhou Shensheng Collagen Products Co., Ltd.")***/^	PRC/Mainland China	RMB200,000,000	–	100%	Manufacture and sale of collagen and collagen sausage casing

15. Investments in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
梧州市神冠投資開發有限公司 ("Wuzhou Shenguan Investment Development Co., Ltd.")***/^	PRC/Mainland China	RMB50,000,000	–	100%	Dormant
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 Co., Ltd.")**/^	PRC/Mainland China	RMB500,000	–	100%	Investment holding

* *This entity is registered as a Sino-foreign joint venture under PRC law*

** *This entity is registered as a wholly-foreign-owned enterprise under PRC law*

*** *These entities are registered as domestic limited liability companies under PRC law*

^ *The English names of these entities represent the best effort made by management of the Company to directly translate their Chinese names as no official English names have been registered*

16. Contract in Progress

	2014 RMB'000	2013 RMB'000
At 1 January	98,082	91,012
Additions	26,167	7,070
At 31 December	124,249	98,082

In 2012, the Group entered into a land development investment contract (the "Contract") with a local government in the PRC. Pursuant to the Contract, the Group is responsible for the demolition, relocation and land acquisition compensation fees with respect to certain land parcels in Wuzhou during the period of land development. The land parcels will be subsequently sold by the local government through public auction. The Group is entitled to certain portion of sales proceeds arising from these land sales. The entire land development is expected to be completed in phase in or after 2016.

Costs incurred by the Group in connection with the Contract comprises mainly the costs related to demolition, relocation and land acquisition compensation fees during the period of land development and are classified as "Contract in progress".

In the opinion of the directors, no provision for impairment is necessary for the contract in progress.

17. 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	Unrealised profits arising from intra-group transactions RMB'000	Total RMB'000
At 1 January 2013	7,168	1,751	3,736	1,251	–	13,906
Deferred tax credited/ (charged) to profit or loss during the year *(note 9)*	(1,464)	(204)	(758)	70	19,450	17,094
At 31 December 2013 and 1 January 2014	**5,704**	**1,547**	**2,978**	**1,321**	**19,450**	**31,000**
Deferred tax credited/ (charged) to profit or loss during the year *(note 9)*	**(402)**	**(255)**	**509**	**1,453**	**19,821**	**21,126**
At 31 December 2014	**5,302**	**1,292**	**3,487**	**2,774**	**39,271**	**52,126**

Deferred tax liabilities

Group

	Withholding tax *RMB'000*
At 1 January 2013, 31 December 2013 and 1 January 2014	1,871
Deferred tax charged to profit or loss during the year *(note 9)*	27,700
At 31 December 2014	29,571

The Group has tax losses arising in Hong Kong of HK$12,573,000 (2013: HK$12,522,000), which was equivalent to RMB9,962,000 (2013: RMB9,777,000) and subject to the confirmation of tax losses from the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

17. Deferred Tax (Continued)

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

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,644,922,000 at 31 December 2014. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings that are subject to withholding taxes in the foreseeable future.

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

18. Inventories

	Group	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**103,894**	107,930
Work in progress	**89,468**	37,505
Finished goods	**653,703**	354,871
	847,065	500,306

19. Trade and Bills Receivables

	Group	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**199,601**	222,137
Bills receivable	**13,156**	–
Due from a related company	**5,371**	4,739
Impairment	**(18,489)**	(8,801)
	199,639	218,075

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 certain 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 and bills receivables based on past experience of collecting payments. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills 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	
	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**175,759**	208,594
3 to 4 months	**3,824**	4,761
Over 4 months	**20,056**	4,720
	199,639	218,075

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

	Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**8,801**	8,337
Impairment losses recognised *(note 5)*	**9,688**	464
At 31 December	**18,489**	8,801

19. Trade and Bills Receivables (Continued)

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of RMB18,489,000 (2013: RMB8,801,000) with a carrying amount before provision of RMB23,314,000 (2013: RMB9,052,000).

The individually impaired trade and bills receivables relate to customers that were in financial difficulties or were in default in principal payments and 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	
	2014 ***RMB'000***	2013 *RMB'000*
Neither past due nor impaired	**173,975**	199,634
Less than 1 month past due	**1,784**	8,960
1 to 2 months past due	**3,824**	4,761
2 to 4 months past due	**2,320**	3,602
4 to 9 months past due	**7,338**	867
Over 9 months past due	**5,573**	–
	194,814	217,824

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.

Due from a related company:

	31 December 2014 ***RMB'000***	**Group** **Maximum amount outstanding during the year** ***RMB'000***	**1 January 2014** ***RMB'000***
LJK Frozen SDN. BHD. ("LJK") *(note)*	**5,371**	**5,371**	4,739

Note:

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 45 days, which is on terms similar to those offered to other major customers of the Group.

20. Prepayments, Deposits and Other Receivables

	Group		Company	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Prepayments	**22,993**	36,551	**29**	278
Deposits and other receivables	**39,815**	53,594	**75**	74
	62,808	90,145	**104**	352

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.

21. Held-to-maturity Investments

Group

	2013		
	Effective interest rate (%)	Maturity	RMB'000
Current			
PRC Certificate Treasury Bonds, at amortised cost	5.6	2014	55,983

The held-to-maturity investments as at 31 December 2013 represented unlisted, non-transferrable PRC Certificate Treasury Bonds issued by the Ministry of Finance of the PRC and were matured in 2014.

22. Cash and Cash Equivalents and Pledged Deposits

		Group		Company	
	Note	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Cash and bank balances		**311,522**	371,210	**29,550**	3,577
Time deposits		**634,107**	270,202	**–**	–
		945,629	641,412	**29,550**	3,577
Less: Pledged time deposits for short term bank loans	25(b)	**(546,044)**	–	**–**	–
Cash and cash equivalents		**399,585**	641,412	**29,550**	3,577

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB898,350,000 (2013: RMB631,728,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. Trade Payables

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

	Group	
	2014 RMB'000	2013 RMB'000
Within 1 month	**40,680**	74,317
1 to 2 months	**47,412**	30,488
2 to 3 months	**6,317**	437
Over 3 months	**3,769**	3,297
	98,178	108,539

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

24. Other Payables and Accruals

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**7,845**	6,545	**–**	–
Accruals	**20,651**	21,507	**–**	–
Other payables	**76,971**	142,253	**397**	390
	105,467	170,305	**397**	390

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

25. Interest-Bearing Bank Borrowings

Group

	2014			2013		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans – secured	**1.22–1.55**	**On demand**	**500,144**	–	–	–
Bank loans – unsecured	**6.00**	**2015**	**283,000**	6.00	2014	200,000
			783,144			200,000

	Group	
	2014	2013
	RMB'000	*RMB'000*
Analysed into:		
Within one year or on demand	**783,144**	200,000

25. Interest-Bearing Bank Borrowings (Continued)

Notes:

(a) Except for the secured bank loans which are denominated in HK$, all of the Group's bank borrowings are denominated in RMB as at 31 December 2014 (2013: all denominated in RMB).

(b) As at 31 December 2014, time deposits of RMB546,044,000 (2013: Nil) were pledged to secure bank borrowings of RMB500,144,000.

(c) As at 31 December 2014, the Group's bank borrowings of RMB283,000,000 (2013: RMB200,000,000) were at fixed rates.

(d) As at 31 December 2014, except for the 6.00% unsecured bank loan, the Group's other loans are secured, bear interests at 1%–1.3% above the Hong Kong Interbank Offer Rate per annum and are repayable on demand.

26. Share Capital

Shares

	2014 HK$'000	2013 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,304,016,000 (2013: 3,324,120,000) ordinary shares of HK$0.01 each	**33,040**	33,242
Equivalent to RMB'000	**28,425**	28,584

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

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Equivalent total RMB'000
At 1 January 2013, 31 December 2013, and 1 January 2014	3,324,120,000	33,242	1,330,460	28,584	1,172,520	1,201,104
Cancellation of share repurchased *(note 28(a)(iv))*	(20,104,000)	(201)	(47,926)	(159)	(37,967)	(38,126)
Final 2013 dividend	–	–	(232,688)	–	(183,717)	(183,717)
Final special 2013 dividend	–	–	(149,585)	–	(118,104)	(118,104)
Interim 2014 dividend	–	–	(142,206)	–	(112,892)	(112,892)
Interim special 2014 dividend	–	–	(105,828)	–	(84,012)	(84,012)
At 31 December 2014	**3,304,016,000**	**33,041**	**652,227**	**28,425**	**635,828**	**664,253**

27. 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 of directors (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 quotation 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 quotation 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.

27. Share Option Scheme (Continued)

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

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

	2014		2013	
	Weighted average exercise price ***HK$ per share***	Number of options *'000*	**Weighted average exercise price** ***HK$ per share***	Number of options *'000*
At 1 January and 31 December	**2.165**	7,880	**2.165**	7,880

No share options were exercised during the years ended 31 December 2013 and 2014.

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

2014

Number of options ***'000***	**Exercise price*** ***HK$ per share***	**Exercise period**
7,880	**2.165**	**13 October 2010–12 October 2015**

2013

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
7,880	2.165	13 October 2010–12 October 2015

* *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 fair value of the share options granted in 2009 was HK$9,760,000 (HK$0.7790 to HK$0.8320 each), of which the Group recognised a share option expense of RMB247,000 (2013: RMB623,000) during the year ended 31 December 2014.

27. Share Option Scheme (Continued)

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)	2.165

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

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

At the end of the reporting period, the Company had 7,880,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,880,000 additional ordinary shares of the Company and additional share capital of HK$79,000 (RMB62,000) and share premium of HK$16,981,000 (RMB13,396,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 7,880,000 share options outstanding under the Scheme, which represented approximately 0.24% of the Company's shares in issue as at that date.

28. Reserves

(a) Group

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

(i) Contributed surplus

The Group's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation in 2009 over the nominal value of the Company's shares issued in exchange therefor.

28. Reserves (Continued)

(a) Group (Continued)

(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.

(iv) Treasury shares

During the year ended 31 December 2014, the Company repurchased its own ordinary shares of 32,204,000 on the Stock Exchange for an aggregate consideration of HK$$73,941,000 (equivalent to RMB58,529,000) of which 20,104,000 ordinary shares were cancelled by the Company as at 31 December 2014. Upon the cancellation of the 20,104,000 shares repurchased, the issued share capital of the Company was reduced by the par value of HK$201,000 (equivalent to RMB159,000) and the premium paid on the repurchase of these cancelled shares of HK$47,926,000 (equivalent to RMB37,967,000), including transaction costs, was deducted from share premium of the Company. As at 31 December 2014, 12,100,000 ordinary shares were repurchased but not yet cancelled by the Company and were included in the "Treasury Shares" in the Company's reserves at the consideration paid (including transaction costs) of HK$25,814,000 (equivalent to RMB20,403,000). These shares were subsequently cancelled on 6 February 2015.

28. Reserves (Continued)

(b) Company

	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Treasury shares RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2013	1,172,520	172,535	(132,363)	4,574	–	320,594	1,537,860
Profit for the year	–	–	–	–	–	188,580	188,580
Exchange realignment	–	–	(35,151)	–	–	–	(35,151)
Total comprehensive income for the year	–	–	(35,151)	–	–	188,580	153,429
Equity-settled share option arrangements	–	–	–	623	–	–	623
Final 2012 dividend	–	–	–	–	–	(174,680)	(174,680)
Final special 2012 dividend	–	–	–	–	–	(88,684)	(88,684)
Interim 2013 dividend	–	–	–	–	–	(124,307)	(124,307)
Interim special 2013 dividend	–	–	–	–	–	(74,055)	(74,055)
At 31 December 2013 and 1 January 2014	1,172,520*	172,535	(167,514)	5,197	–	47,448*	1,230,186
Loss for the year	–	–	–	–	–	(4,585)	(4,585)
Exchange realignment	–	–	14,685	–	–	–	14,685
Total comprehensive income for the year	–	–	14,685	–	–	(4,585)	10,100
Share repurchase	–	–	–	–	(58,529)	–	(58,529)
Cancellation of shares repurchased	(37,967)	–	–	–	38,126	–	159
Equity-settled share option arrangements	–	–	–	247	–	–	247
Final 2013 dividend	(183,717)	–	–	–	–	–	(183,717)
Final special 2013 dividend	(118,104)	–	–	–	–	–	(118,104)
Interim 2014 dividend	(112,892)	–	–	–	–	–	(112,892)
Interim special 2014 dividend	(84,012)	–	–	–	–	–	(84,012)
At 31 December 2014	635,828*	172,535	(152,829)	5,444	(20,403)*	42,863*	683,438

* *These reserve accounts comprise the Company's reserves available for distribution amounting to RMB658,288,000 (2013: RMB1,219,968,000).*

28. Reserves (Continued)

(b) Company (Continued)

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 payments 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 after the vesting period.

29. Contingent Liabilities

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

30. Pledge of Assets

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in notes 25 and 22, respectively, to the financial statements.

31. Operating Lease Arrangements

As lessee

The Group leases its office premises under an operating lease arrangement. A lease is negotiated for a term of two years.

At 31 December 2014, the Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

	Group	
	2014 **RMB'000**	2013 RMB'000
Within one year	**721**	246
In the second to fifth years, inclusive	**290**	–
	1,011	246

32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2014 RMB'000	2013 RMB'000
Contracted, but not provided for:		
Buildings	**108,599**	110,424
Plant and machinery	**10,811**	3,516
	119,410	113,940

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

33. 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:

		Group	
	Notes	**2014 RMB'000**	2013 RMB'000
Company controlled by a director of the Company:			
Sale of products	*(i)*	**6,314**	8,956
Companies controlled by spouse of a director of the Company:			
Purchases of packing materials	*(ii)*	**29,513**	29,916

Notes:

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

(ii) These transactions were based on terms mutually agreed between the parties.

(b) Balance with a related party

Balance with a related party is detailed in note 19 to these financial statements.

33. Related Party Disclosures (Continued)

(c) Compensation of key management personnel of the Group

	2014 RMB'000	2013 RMB'000
Fees	300	400
Salaries, allowances and benefits in kind	3,628	2,952
Discretionary performance-related bonuses	9,624	9,338
Retirement benefit contributions	23	37
Equity-settled share option expense	207	520
Total compensation paid to key management personnel	13,782	13,247

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

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

34. Financial Instruments by Category

Other than held-to-maturity investments as disclosed in note 21 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2014 and 2013 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

35. Fair Value and Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank borrowings and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group and the Company did not have any financial assets and financial liabilities measured at fair value as at 31 December 2014 and 2013.

36. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise held-to-maturity investments, pledged deposits, cash and cash equivalents, 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 and bills receivables and trade payables, which arise directly from its operations.

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

At 31 December 2014, it was estimated that if interest rates at those dates had been 100 (2013: 100) basis points higher/lower, with all other variables held constant, there would have been a decrease/increase of RMB2,113,000 (2013: Nil) in the Group's profit before tax and a decrease/increase of RMB2,113,000 (2013: Nil) in the Group's equity for the year ended 31 December 2014 (through the impact on floating rate borrowings).

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 US$. The Group also had bank borrowings denominated in HK$ in 2014. The fluctuation of the exchange rates of these 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.

36. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

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

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

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions to reduce the Group's exposure to foreign currency risk resulting from trade and bills receivables denominated in US$ and bank borrowings denominated in HK$. While the Group may decide to enter into other hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all.

A reasonably possible increase/decrease of 5% in the exchange rate of US$ against RMB or HK$ against RMB would have decreased/increased the Group's profit before tax by RMB12,496,000 and decreased/increased the Group's exchange fluctuation reserve by RMB21,945,000 during the year ended 31 December 2014.

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 and bills 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 19 to the financial statements.

36. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

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

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

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

Group

	2014			
	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	**789,592**	**–**	**–**	**789,592**
Trade payables	**98,178**	**–**	**–**	**98,178**
Other payables and accruals	**97,622**	**–**	**–**	**97,622**
	985,392	**–**	**–**	**985,392**

	2013			
	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	204,577	–	–	204,577
Trade payables	108,539	–	–	108,539
Other payables and accruals	163,760	–	–	163,760
	476,876	–	–	476,876

36. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Company

As at 31 December 2014, the Company had other payables and amounts due to subsidiaries amounting to RMB397,000 (2013: RMB390,000) and RMB34,826,000 (2013: RMB3,848,000), respectively, all of which were repayable within one year or on demand.

Capital management

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

The Group monitors capital using a gearing ratio and a debt-to-equity ratio. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total interest-bearing bank borrowings (as shown in the consolidated statement of financial position) less cash and cash equivalents and pledged deposits. The debt-to-equity ratio is calculated by dividing the total interest-bearing bank borrowings by the total equity. The Group aims to maintain the gearing ratio and debt-to-equity ratio at a reasonable level. The gearing ratios and debt-to-equity ratio as at the ends of the reporting periods were as follows:

	Group	
	2014	2013
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**783,144**	200,000
Less: Cash and cash equivalents	**(399,585)**	(641,412)
Less: Pledged deposits	**(546,044)**	–
Net cash	**(162,485)**	(441,412)
Total equity	**2,635,605**	2,644,058
Gearing ratio	**N/A**	N/A
Debt-to-equity ratio	**29.7%**	7.6%

37. Events after the Reporting Period

(i) On 26 January 2015, Wuzhou Shenguan entered into an equity transfer agreement with Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in 廣西梧州三箭製藥有限公司 (Guangxi Wuzhou Sanjian Pharmaceutical Company Limited ("Sanjian Pharmaceutical")) at a cash consideration of RMB4,810,000. Upon completion of the acquisition, Sanjian Pharmaceutical will become a wholly-owned subsidiary of Wuzhou Shenguan. For details of the acquisition of Sanjian Pharmaceutical, please refer to the announcement of the Company dated 26 January 2015.

(ii) On 12 February 2015, the Company entered into a warrant placing agreement with China Investment Securities International Brokerage Limited (the "Placing Agent") in relation to a warrant placing, pursuant to which the Placing Agent agreed to place, on a best effort basis, up to 160,000,000 warrants conferring rights to subscribe for up to 160,000,000 warrant shares at the warrant exercise price of HK$3.00 per warrant share (subject to adjustment) to not less than six warrant placees who and their respective ultimate beneficial owners are independent operating principals. Each warrant carries the right to subscribe for one warrant share. The warrants are to be placed at HK$0.001 each. The warrant shares will be allotted and issued under the general mandate. For details of the issuance of warrant shares, please refer to the announcements of the Company dated 12 February 2015 and 26 February 2015, respectively.

38. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 March 2015.

FIVE YEAR FINANCIAL SUMMARY

The consolidated results of Shenguan Holdings (Group) Limited and its subsidiaries (together the "Group") for the five years ended 31 December 2010, 2011, 2012, 2013 and 2014 and the consolidated assets, liabilities and non-controlling interests of the Group as at 31 December 2010, 2011, 2012, 2013 and 2014 are extracted from the published audited financial statements.

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

Year ended 31 December

	2014 ***RMB'000***	2013 *RMB'000*	2012 *RMB'000*	2011 *RMB'000*	2010 *RMB'000*
RESULTS					
REVENUE	**1,403,008**	1,654,492	1,648,477	1,501,985	1,152,689
Cost of sales	**(633,214)**	(687,010)	(689,255)	(571,709)	(454,616)
Gross profit	**769,794**	967,482	959,222	930,276	698,073
Other income and gains, net	**38,359**	72,597	70,326	62,578	49,118
Selling and distribution expenses	**(17,743)**	(22,039)	(20,385)	(22,533)	(14,595)
Administrative expenses	**(99,663)**	(77,860)	(81,201)	(101,911)	(68,026)
Finance costs, net	**(14,610)**	(6,360)	2,239	(289)	252
PROFIT BEFORE TAX	**676,137**	933,820	930,201	868,121	664,822
Income tax expense	**(128,661)**	(162,543)	(182,018)	(163,490)	(134,520)
PROFIT FOR THE YEAR	**547,476**	771,277	748,183	704,631	530,302
Profit attributable to:					
Owners of the Company	**547,476**	771,277	748,183	689,319	513,458
Non-controlling interests	**–**	–	–	15,312	16,844
	547,476	771,277	748,183	704,631	530,302
As at 31 December					
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**3,698,944**	3,185,057	2,882,621	2,192,395	2,199,754
TOTAL LIABILITIES	**(1,063,339)**	(540,999)	(537,838)	(286,923)	(335,154)
NON-CONTROLLING INTERESTS	**–**	–	–	–	(26,921)
	2,635,605	2,644,058	2,344,783	1,905,472	1,837,679