神冠
SHEN GUAN

Shenguan Holdings (Group) Limited

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

ANNUAL REPORT
2015

CONTENTS

CORPORATE INFORMATION

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

Company Secretary

Mr. Ng Yuk Yeung *FCCA CPA CFA*

Legal Advisers as to Hong Kong Laws

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

Registered Office

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

Hong Kong Office

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

Mainland Office

29 Fudian Shangchong
Xijiang Fourth Road
Wuzhou, Guangxi
PRC

Principal Bankers

Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
Bank of Communications
China Construction Bank
The Hongkong 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 SmallCap Index
MSCI Global Small Cap China Index

Key Dates

13 October 2009
Listed on Hong Kong Stock Exchange

18 March 2016
Announcement of 2015 Annual Results

20 May 2016 to 25 May 2016
(both days inclusive)
Closure of Register of Members
(for Annual General Meeting)

25 May 2016
Annual General Meeting

31 May 2016 to 3 June 2016
(both days inclusive)
Closure of Register of Members (for Final Dividend)

on or around 17 June 2016
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 2015
3,268,276,000 shares

Market capitalization as at 31 December 2015
HK$3,693,151,880

Basic earnings per share for 2015
Full year RMB8.87 cents

Dividend per share for 2015
Full year HK3.2 cents

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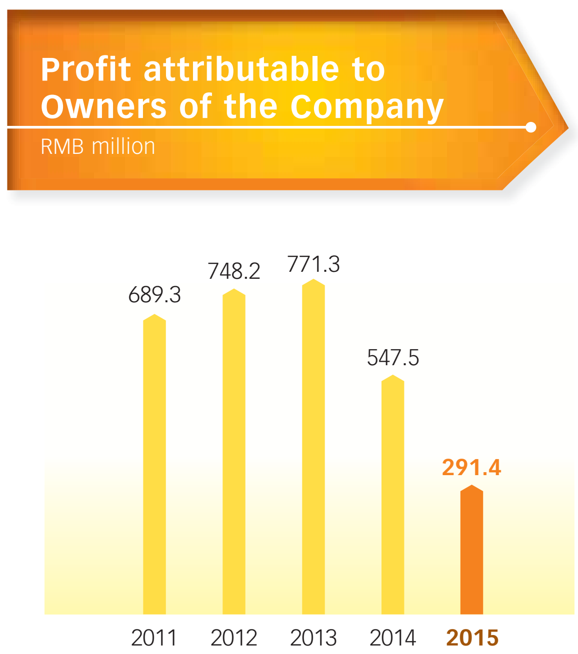
FINANCIAL HIGHLIGHTS

Financial and Operating Highlights for the year ended 31 December

(RMB million, except where otherwise stated)	2015	2014	% change
Revenue	1,054.6	1,403.0	-24.8%
Profit attributable to Owners of the Company	291.4	547.5	-46.8%
Basic Earnings Per Share (RMB cents)	8.87	16.5	-46.2%
Dividend Per Share (HK cents)			
– Interim	–	4.3	N/A
– Special (Interim)	–	3.2	N/A
– Final	3.2	4.1	-22.0%
Cash Inflow from Operation	327.4	280.8	+16.6%
Total Assets	3,694.0	3,698.9	-0.1%
Inventory Turnover Day – Raw Materials (days)*	52.6	61.1	-8.5 days
Inventory Turnover Day – FG & WIP (days)*	495.7	327.3	+168.4 days
Trade Receivables Turnover Day (days)*	66.0	54.3	+11.7 days
Trade Payables Turnover Day (days)*	106.9	84.8	+22.1 days

* *Calculated based on the average value between the beginning of the year and the end of the year*



CHAIRMAN'S STATEMENT

To all shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited ("Shenguan Holdings" or the "Company"), I hereby present the audited annual results for the year ended 31 December 2015 (the "Year") of the Company and its subsidiaries (which are collectively referred to as "the Group").

2015 is a relatively challenging year to the Group. Not only did the slow recovery in the world economy and the fast-changing capital and currency markets lead to the weakness in the consumption market, but it also made the business environment more difficult. Facing the new norm of low growth, China's economy had brought bigger challenges to the operations of domestic enterprises.

Weak consumption in the meat market has resulted in different levels of decline in the output of low-temperature products of domestic meat products enterprises. At the same time, foreign sausage casing manufacturers took the advantage of decreasing exchange rates of currencies in Europe and Japan to grab market shares in China, while local small-scale collagen sausage casing manufacturers sold their products at low price. All these have intensified the competition in the sausage casing market. They affected the principal sausage casing business of the Group to a certain extent on one hand, while fostered the decisive reform and innovation and the efforts in product diversification of the Group on the other hand, with an aim for larger development opportunities for the Group by grasping the market opportunities which drive long-term growth.

"As the largest enterprise utilising collagen in China, the Group is dedicated to the development of core collagen technologies. In 2015, the Group sets its goal for the long-term development, and decided that in the coming five to ten years, it would focus on stepping up the development of the health industry, implement the construction of the product chain projects steadily, investigate actively in new projects on collagen technologies, as well as expand into related industries so as to broaden the corporate development."

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

As the largest enterprise utilising collagen in China, the Group is dedicated to the development of core collagen technologies. In 2015, the Group sets its goal for the long-term development, and decided that in the coming five to ten years, it would focus on stepping up the development of the health industry, implement the construction of the product chain projects steadily, investigate actively in new projects on collagen technologies, as well as expand into the application of collagen technology in various areas including food, health care products, skin care products and medications.

In line with its development strategies, during the Year, the Group successfully carried out several acquisitions with strategic values, obtained key technologies and certifications and expanded the usage of collagen into medical grade collagen materials, skin care products and health care products with satisfactory progress made.

For example, new products of collagen skincare developed by the Group through Nanning Nuyou Health Care Products Company Limited ("Nanning Nuyou") and Guangxi Luxianna Biotechnology Development Company Limited (廣西露仙娜生物科技發展有限公司) are under trial production and marketing strategy planning, and the product will be launched for sale in 2016. In addition, wound dressing from Guangdong Victory Biotech Co., Ltd. ("Guangdong Victory") is undergoing clinical trial, and its inner body hemostatic cotton is applying for clinical trial. For new products including collagen food products, they are also in the process of product testing, formulation of product standards and marketing strategy planning, and are expected to be available for sale in 2016. The product development for those collagen-based products is getting mature.

Meanwhile, the Group has successfully strengthened its research and development team by inviting medical expert, Dr. Bin-Bing Zhou and medical collagen expert, Dr. Tsai Cheng Chih to join, thereby enhancing the ability of widening the application of pharmaceutical products and medical products of the Group substantially.

Guangxi Wuzhou Zhongguan Testing Technology Services Co., Ltd. ("Wuzhou Zhongguan"), a subsidiary of the Group, became an accredited independent food inspection institution. Wuzhou Zhongguan is able to examine over 200 indicators, including heavy metals and microelements, pesticide residues, microorganisms and proteins. Such qualification is going to lay a solid foundation for the Group's development into a base of collagen material and promote the healthy development of high-end foods, health care products and medications of the health industry.

Although notable progress was made in the product chain development of the Group, its production and liquidity remained stable, and business strength was consolidated, the performance of the Group was still below expectation in such challenging business environment. Turnover decreased by 24.8% to approximately RMB1,054.6 million, whereas profit attributable to owners of the Company decreased by approximately RMB256.1 million, declined by approximately 46.8% to approximately RMB291.4 million in 2015 from approximately RMB547.5 million in 2014. By excluding the effect of the increase in expenses on the net profit of the Group including loss on disposal of fixed assets, loss on foreign exchange and amortisation of technology which were included in administrative expenses, profit attributable to owners of the Company in 2015 decreased by approximately RMB218.5 million, representing a decrease of approximately 39.9% when compared with 2014. Earnings per share was RMB8.87 cents. The Board recommended the payment of a final dividend of HK3.2 cents.

Looking forward to 2016, the Group will continue to focus on the development of the health industry by steadily facilitating the construction of product chain projects, proactively investigating in the new projects of collagen technologies, expanding the application of collagen technologies and transform and upgrade for business diversification.

In light of the bright prospects for the medical collagen industry and the skincare industry, the Group will be more active in developing these sectors. The Group has obtained the certification of European Union on quality of medical devices (ISO13485:2003) and certification of European Union on control of medical devices utilising animal tissues (ISO22442-1:2007, ISO22442-2:2007 and ISO22442-3:2007), which enabled the Group to export medical-grade collagen raw materials to the European Union. While facilitating clinical trials for products including collagen wound dressing and inner body hemostatic cottons, the Group will obtain production permits as soon as practicable. In the meantime, the Group will speed up the application for the protection of proprietary techniques, increase its marketing efforts and promote the sales of the existing medical collagen materials that are already producible. Aiming for a sizeable sales of skincare products in 2016, the Group will also perfect the auxiliary works of the production lines of collagen skin care products to satisfy the need for mass production, and step up various preparation works such as speeding up the marketing of skincare products and batch production. Riding on the forthcoming huge development opportunities emerging in pharmaceutical industry, the Group will expand production capacity of current pharmaceutical products and increase production of applicable medications through Guangxi Wuzhou Sanjian Pharmaceutical Co., Ltd., so as to realize scale management and enhance economic efficiency.

The Group will continue to strengthen the development in collagen sausage casing business and will be committed to enhancing the development of new products, in particular to focus on developing new sausage casing products which are suitable for different cooking methods. In addition, it will increase the production of various ends products in order to adapt to market demand and promote business growth. While emphasizing our major duties of "de-stocking, lowering costs, maintaining quality, developing with innovation" in 2016, the Group will proactively research and develop and set up its own management model, put efforts in promoting the establishment of marketing system, and strengthen the development which is favorable to maintaining its leadership in the collagen sausage casing market, so as to provide a solid start and foundation for the thirteenth Five Year Plan.

The Group believed that all of the above measures will keep facilitating the sustainable development of the Group, promote the development in collagen sausage casing business and further broaden the application of technologies in collagen, bringing considerable returns to the Shareholders in the long term.

Zhou Yaxian
Chairman and President

Hong Kong, 18 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2015, global economic growth was slower than expected while China was facing persistent downward pressure on its domestic economy. According to the statistics from the National Bureau of Statistics, during the Year, the country's gross domestic product ("GDP") grew at 6.9 per cent from 2014.

Affected by the macro-economic environment, meat consumption in China decreased in 2015. The output of fresh meat – pork, beef, mutton and poultry decreased by 1.0 per cent to 84.54 million tons in 2015 as compared with last year, in which pork production was 54.87 million tons, which represented a decline of 3.3 per cent. China's domestic meat products enterprises also suffered from different levels of decline in the output of low temperature products due to the weakness in meat consumption market.

Amidst the slow growth in the market, certain changes were also noticed in the competitive landscape of sausage casing industry. On the one hand, the currency exchanges of Europe and Japan have been trading at a relatively low level for most of the time in 2015, and the foreign sausage casing manufacturers grasped such opportunity to enlarge their Chinese market and compete with the local manufacturers. On the other hand, local small-scale collagen sausage casing manufacturers which are faced with competitive pressure has reduced their selling prices, which in turn intensified the market competition.

Business Review

In 2015, against the difficult operating environment characterized by the sluggish global economy, downward pressure on China's economy, weakening demand for low temperature meat products, intensified sausage casing market and significant change in customer demand, the Group took active measures to minimize the impacts. Meanwhile, it also adjusted its product mix during this low period thereby realizing product diversification.

Besides clearance of old-aged inventories and products produced by the old method through promotional activities during the Year, the Group adopted a series of counter measures and has made certain progress, particularly, in lowering costs, adjusting the production according to the seasons to reduce the energy consumption, raising the level of mechanization to save labor force and monitoring the credit of the customers closely. All these have enabled the Company to maintain a stable position in production, business operation and liquidity.

In addition, in view of the development expectation of sausage casing market, the Group conducted a due analysis and research and confirmed the broad application prospect of collagen thus decided that the Group would base on the application of collagen technologies in the coming five to ten years. With a focus on the health industry for development, it will also promote the project construction for the industrial chains steadily and proactively investigate the application of new collagen technologies in new areas. During the year under review, the Group successfully implemented various strategic acquisitions to lay a solid foundation for product diversification.

The Group also attained progress in product development and technology application. New products including collagen food products are currently under product testing, compiling product standard and marketing strategy planning. It is expected to be available for sales in 2016. In addition, the Group's new collagen skincare products developed by Nanning Nuyou and Guangxi Luxianna Biotechnology Development Company Limited ("Guangxi Luxianna") (廣西露仙娜生物科技發展有限公司) are currently under trial production and marketing strategy planning, and are also expected to be available for sales in 2016.

Although the Group has taken a positive attitude in promoting its development, the performance for the Year was still below expectation. Revenue for 2015 was approximately RMB1,054.6 million, decreased by 24.8% compared to last year. Profit attributable to owners of the Company decreased by approximately RMB256.1 million, representing a decrease of approximately 46.8% to approximately RMB291.4 million in 2015 from approximately RMB547.5 million in 2014. By excluding the effect of the increase in expenses on the net profit of the Group including loss on disposal of fixed assets, loss on foreign exchange and amortisation of technology which were included in administrative expenses, profit attributable to owners of the Company in 2015 decreased by approximately RMB218.5 million, representing a decrease of approximately 39.9% from 2014. Earnings per share was RMB8.87 cents. The Board proposed a final dividend of HK$3.2 cents per share.

Business Diversification

The Group has made significant progress in product chain development and business diversification in 2015 through a number of acquisitions of collagen application, and it is commencing the application of collagen technology in various areas including medications, beauty, food and health care products.

In respect of medications, the Group completed the acquisition of Guangxi Wuzhou Sanjian Pharmaceutical Co., Ltd (廣西梧州三箭製藥有限公司) ("Sanjian Pharmaceutical") in early 2015, from which the Group acquired the GMP qualification for manufacturing medical products. Then, the Group acquired 51% equity interest of Guangdong Victory, from which the Group acquired the technology of producing medical grade collagen materials in the second half of the Year. The collagen wound

dressing produced by Guangdong Victory is undergoing clinical trial and its inner body hemostatic cotton is under application for clinical trial. Guangdong Victory obtained the certification of the European Union on quality of medical devices (ISO13485:2003) and certification of the European Union on control of medical devices utilising animal tissues (ISO22442-1:2007, ISO22442-2:2007 and ISO22442-3:2007) in 2013, and the production permits for medical sanitary materials and dressings (Class II & Class III) issued by Guangdong Food and Drug Administration. Moreover, Guangdong Victory also has the ability for mass producing medical-grade collagen raw materials which can be exported to the European Union.

Collagen is also applicable to the cosmetics industry; therefore the Group acquired the entire equity interests in Nanning Nuyou in July 2015. Upon completion of the acquisition, the Group gained the production, and sales permits for skincare products and health care products as well as seven registered trademarks including "女友" and "女友青春態".

In respect of food and health care products, the Group acquired 15% equity interests in Ferguson (Wuhan) Biotechnologies Ltd. (福格森（武漢）生物科技股份有限公司) ("Ferguson Wuhan"), a company which engaged in production of professional health care products. Ferguson Wuhan focuses on the research and development, production and sales of products for pregnant women, toddlers and persons with special needs.

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 create demand for sausage casings of different sizes and fillings.

In order to keep pace with the new trend of the domestic meat product industry, the Group also launched new products that can be applied to more types of sausages fillings to cater for the market. Currently, the products using the new production method are widely used by customers and the quality is becoming more stable. At the same time, the Group also made great efforts in enhancing internal management, streamlining production processes and improving efficiency.

The Group completed acquisitions of equity interests in several companies during the Year. The Group also sought to optimize the application of its collagen technologies through the newly acquired companies and expanded the coverage of its products to the health industry with an aim to achieve business diversification. With the gradual implementation of such strategy, by the end of 2015, the Group has extended the application of its products to medical-grade collagen materials, skincare products and health care products.

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 over the past few years and such situation is expected to remain unchanged in the coming years. During the Year, in response to the market conditions, the Group used its bargaining power of bulk purchases to reduce the purchase price of raw materials, thus effectively controlled the production cost, increasing the competitiveness of the Group's products in the future.

Technological Research & Development

As the largest enterprise utilising collagen in China, the Group is committed to stepping up the development of core collagen technologies, with an aim of establishing a base for production of safe, reliable and standardized collagen material required by the health industry. The move will also upgrade and transform the collagen industry and promote proactively the application of collagen in the health industry. In terms of expertise, Dr. Bin-Bing Zhou, a medical expert, joined the Group as the technical consultant of the Company in March 2015. Dr. Zhou was recruited as an expert under the Thousand Talents Program (the eighth batch) of the Organization Department of the Communist Party of China's Central Committee and that at the Shanghai municipal level (the second batch). He is currently the Head of the Institute of Translational Research in Pediatrics of the School from Medicine of Shanghai Jiao Tong University, Chief Scientist of the Translational Research Collaborative Innovation Center of the School of Medicine from the same university, and an adjunct professor of University of Medicine and Dentistry of New Jersey. Prior to returning to China, Dr. Zhou was a Senior Director of Oncology Research Unit-East at Pfizer, mainly responsible for the research of anticancer medicine and mechanism of cancers. Leveraging his extensive research on the mechanism of tumor's drug resistance and new drugs to overcome the resistance, Dr. Zhou has achieved fruitful results in scientific theories and technological developments.

In August 2015, through the acquisition of Guangdong Victory, Dr. Tsai Chen Chih, an industry expert in medical use of collagen joined the Group. Dr. Tsai Chen Chih obtained the doctoral degree in chemical engineering from National Central University of Taiwan and has been focusing on biochemical research for a long time, which has earned him several patented technology and thesis. He has good command of the research and development and in-depth technology about collagen in medications.

The involvement from these professionals as mentioned above will improve its capability of developing the applications of collagen in pharmaceutical and medical products.

In respect of the sausage casing business, as at 31 December 2015, the Group had 35 valid patents granted by the State Intellectual Property Office of China and 21 patents applications have been accepted by the relevant authorities pending approval.

Quality Control

The Group strictly controls each production step to ensure that its products are at the best quality and have complied with all safety requirements.

Wuzhou Zhongguan, a subsidiary of the Group, is able to examine over 200 indicators, including heavy metals and microelements, pesticide residues, microorganisms and proteins, and Wuzhou Zhongguan had obtained Qualification Accreditation of Food Inspection Agencies and Metrological Certification in 2014 and obtained the qualification for the status of an independent food inspection institution in April 2015, and is able to conduct direct inspection of various food and relevant products and issue officially-recognized inspection reports. Such recognized qualification is going to lay a solid foundation for the Group's development into a base of collagen material and promoting the development of the Group into high-end foods, health care products and medications of the health industry.

The Group's production of collagen sausage casings has passed the assessments of ISO9001:2008 Quality Management System and the certification of 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 sausage casing products have strictly complied with China's (the People's Republic of China) 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 of the Group as a trustworthy product supplier to its customers.

Customer Relationship

The Group is committed to developing relationships based on mutual trust with its business partners and, establishing a sophisticated customer network. The Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only with enterprises in China, but also those in various overseas markets, such as South America, Southeast Asia and the United States for cooperation. During the Year, the Group continued to supply high-quality sausage casings to a number of renowned food manufacturers in China. The number of domestic customers remained stable.

Financial Analysis

Revenue

Revenue decreased by approximately 24.8% to approximately RMB1,054.6 million in 2015 from approximately RMB1,403 million in 2014. The decrease in revenue was mainly due to the slow growth in China's food industry, together with different levels of decline in the output of low-temperature products of domestic meat products enterprises, resulting in a decrease in the overall sales volume of the Group. Moreover, the increase in the sales by foreign sausage casing suppliers to the Chinese market owing to the depreciation of European and Japanese currencies during the Year, and the sales at low prices by local small-scale collagen sausage casing manufacturers, led to the decline in both the overall product price in the industry and the average price of the Group's products. Other factors which led to the decline of the average price included the fact that the Group endeavored to sell those products produced using the old production method and older inventories as well as commenced some promotional activities during the Year.

Cost of sales

Cost of sales decreased by approximately 7.0% to approximately RMB588.7 million in 2015 from approximately RMB633.2 million in 2014, which mainly reflected the decrease in sales volume and the result of the cost-controlling measures adopted by the Group. Such cost-controlling measures have met expectation starting from May 2015. Costs of raw materials declined by approximately 12.2% to approximately RMB233.4 million, utilities charges decreased by approximately 11.7% to approximately RMB138.4 million and the direct labor cost slightly increased by approximately 3.1% to approximately RMB112.1 million.

Gross profit

Gross profit decreased by approximately 39.5% to approximately RMB465.9 million in 2015 from approximately RMB769.8 million in 2014. The gross profit margin decreased from 54.9% to 44.2% in 2015. The decrease in gross profit margin was mainly caused by the decreases in the market price of the products as a whole which reduced the average selling price of the Group's products.

Other income and gains

Other income and gains increased by approximately 6.9% to approximately RMB41.0 million in 2015 from approximately RMB38.4 million in 2014. The change of other income and gains was mainly caused by the increase of bank interest income by approximately RMB6.0 million.

Selling and distribution costs

Selling and distribution expenses decreased by approximately 34.3% from approximately RMB17.7 million in 2014 to approximately RMB11.7 million in 2015. Selling and distribution expenses as a percentage of revenue decreased from 1.3% in 2014 to 1.1% in 2015.

Administrative expenses

Administrative expenses increased by approximately 40.8% from approximately RMB99.7 million in 2014 to approximately RMB140.4 million in 2015. During the Year, the provision for trade receivables was approximately RMB4.8 million, representing a decrease of RMB4.8 million when compared to that in last year.

However, to enhance the productivity, the Group discarded certain non-efficient production lines and equipments, and demolished and reconstructed an old office building during the Year, incurring a loss of approximately RMB23.8 million from the disposal of fixed assets, representing an increase of approximately RMB21.4 million as compared to last year. By excluding the corporate income tax, the effect of the relevant increase in loss on disposal of fixed assets on the net profit of the Group will be approximately RMB18.2 million. On the other hand, the depreciation of Renminbi during the Year has led to an exchange loss of approximately RMB12.0 million, representing an increase of approximately RMB11.8 million as compared to last year. Lastly, the Group acquired technologies through the acquisition of Guangdong Victory in August 2015 and these intangible assets will be amortized over five years with the related amortization expense of approximately RMB14.9 million for the period between September and December in 2015. The related amortization has an impact of approximately RMB7.6 million on the Group's net profit after deducting the minority interest in Guangdong Victory.

Finance costs

Finance costs increased by approximately 21.1% to approximately RMB17.7 million in 2015 from approximately RMB14.6 million in 2014. Finance costs were mainly caused by two bank borrowings of HK$634.0 million in aggregate, which were secured by three deposits. 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 were collectively referred to as "Mainland onshore guarantee for offshore loan". The increase of finance costs was mainly due to a decrease in government subsidies of about RMB2.5 million.

Income tax expenses

Income tax expenses were approximately RMB51.6 million in 2015, as compared to approximately RMB128.7 million for the same period of 2014. 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 as well as their engagement in industries encouraged by the government policies. The applicable tax rate for Wuzhou Shenguan and Shensheng Collagen was 15%.

The effective tax rates applied to the Group was 19.0% and 15.3% of profit before tax, respectively in 2014 and 2015. The difference between the effective tax rate and the applicable tax rate in 2014 was mainly due to the withholding tax levied on dividends declared by Wuzhou Shenguan to its holding company incorporated in Hong Kong.

Profit attributable to owners of the Company

Due to the aforesaid reasons and after adding back the loss attributable to the minority interests of approximately RMB5.8 million, profit attributable to owners of the Company decreased by approximately RMB256.1 million, representing a decrease of approximately 46.8% to approximately RMB291.4 million in 2015 from approximately RMB547.5 million in 2014. By excluding the effect of the increase in expenses on the net profit of the Group including loss on disposal of fixed assets, loss on foreign exchange and amortisation of technology which were included in administrative expenses, profit attributable to owners of the Company in 2015 decreased by approximately RMB218.5 million, representing a decrease of approximately 39.9% from 2014.

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 2015, the cash and cash equivalents together with the pledged deposits amounted to approximately RMB565.5 million, representing a decrease of approximately RMB380.1 million from the end of 2014. Among these balances, 94.0% was denominated in Renminbi and the remaining 6.0% was denominated in Hong Kong dollars and U.S. dollars.

As at 31 December 2015, the total bank borrowings of the Group amounted to approximately RMB544.5 million, representing a decrease of approximately RMB238.6 million from the end of 2014 (as at 31 December 2014: approximately RMB783.1 million), and all bank borrowings were wholly repayable within one year, of which the total bank borrowings denominated in Renminbi were approximately RMB222.0 million, while the bank borrowings denominated in Hong Kong dollars (the "HK$ Bank Borrowings") were HK$385.0 million (equivalent to approximately RMB322.5 million). The HK$ Bank Borrowings were subject to an interest rate of HIBOR plus 1% per annum and were secured by a fixed deposit of RMB330.0 million. The HK$ Bank Borrowings and the corresponding arrangement for security of deposit were collectively referred to as "Mainland onshore guarantee for offshore loan" in the banking industry.

The Group pays close attention to the continued depreciation of Renminbi. During the Year, another bank borrowing denominated in Hong Kong dollars (totaling HK$249.0 million) has been repaid on the due date. As at the date of this report, the Group had early repaid part of the HK$ Bank Borrowings in the amount of HK$336.4 million, and the outstanding unpaid HK$ Bank Borrowings amounted to HK$48.6 million.

The Group was in a net cash position (cash and cash equivalents together with pledged deposits less total bank borrowings) of approximately RMB21.0 million as at 31 December 2015. The debt-to-equity ratio was 19.0% as at 31 December 2015 (as at 31 December 2014: 29.7%). The debt-to-equity ratio was calculated by dividing the total bank borrowings by the total equity.

Cash flows

During the Year, approximately RMB327.4 million was generated from the operating activities, while the net amount spent on investing activities and financing activities was approximately RMB180.8 million and approximately RMB437.7 million, respectively. Net cash outflow from investing activities was mainly related to the purchase of property, plant and equipment, payment of consideration for acquisition, and a cash outflow related to the decrease of pledged fixed deposits, which was not classified as cash and cash equivalent in the statement of cash flow under the accounting standards, thus it was defined as cash inflow in the statement of cash flows. Net cash outflow from financing activities was mainly related to the combined effects of repayment of bank borrowings and new bank borrowings, as well as the payment of final dividend for 2014 and share repurchase.

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 (excluding payment of consideration for acquisition) of the Group during the Year amounted to approximately RMB82.0 million, which was mainly used for the acquisition of property, plant and equipment. Capital commitments as at 31 December 2015 amounted to approximately RMB121.5 million, which were mainly related to the improvement and enhancement of production equipment.

The estimated capital expenditure of the Company for 2016 amounted to approximately RMB170.0 million, which will be used for the improvement of marketing and quality inspection facilities, the improvement and automatization of production facilities for sausage casing business, as well as expansion of production facilities and corresponding lands for the newly-acquired corporations.

Pledge of assets

As at 31 December 2015, bank deposits amounted to approximately RMB354.7 million, of which approximately RMB330.0 million was pledged as the security of the bank borrowings totalling approximately HK$385.0 million (equivalent to approximately RMB322.5 million).

Contingent liabilities

As at 31 December 2015 and up to the date of this report, the Group was not aware of any material contingent liabilities.

Acquisitions, disposals and significant investment

On 26 January 2015, Wuzhou Shenguan entered into an equity transfer agreement with Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian, who is 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 RMB4,810,000. Please refer to the announcement of the Company dated 26 January 2015 for details of the acquisition of Sanjian Pharmaceutical.

On 20 July 2015, Shenguan Investment Development Company Limited ("Shenguan Investment Development"), a subsidiary of the Group, entered into an equity transfer agreement with Enneford Industrial Limited ("Enneford Industrial"), pursuant to which, Shenguan Investment Development agreed to acquire and Enneford Industrial agreed to sell 51% equity interests in Guangdong Victory at a total consideration of RMB146,880,000. Please refer to the announcement of the Company dated 20 July 2015 for details of the acquisition of Guangdong Victory.

On 6 August 2015, Wuzhou Shenguan (as purchaser) entered into an acquisition agreement with Nanning Zhe Yuan Tang Business Limited ("Nanning Zhe Yuan") (as vendor) for the acquisition of 15% equity interest in Ferguson (Wuhan) at the aggregate consideration of RMB31,100,000. Please refer to the announcement of the Company dated 6 August 2015 for details of the acquisition of Ferguson (Wuhan).

Human resources

As at 31 December 2015, the Group had approximately 3,400 contract employees. During the Year, the total remuneration and employees' benefit expenses charged to profit and loss statement were approximately RMB145.6 million (2014: approximately RMB137.3 million). In order to attract and retain high quality talents to ensure smooth operation and to cope with 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 (the "Scheme"). The Scheme has been put in place to incentivize employees, and to encourage them to work hard to enhance the value and promote the long-term growth of the Group.

Subsequent Events

There was no important events affecting the Group that have occurred since the end of 31 December 2015.

Major Awards

The Group received various awards in 2015. Wuzhou Shenguan was granted "Meat Packaging Material Production Enterprise with the Most Valuable Brand (肉類包括物料生產最具價值品牌企業)" by China Meat Association, as well as the titles of "2015 Top 100 Manufacturers of Guangxi (2015廣西企業100強)", "Guangxi's Top 50 Production Industry 2015 (2015廣西製造業50強)", "2015 Top 50 Private Enterprises of Guangxi (2015年廣西民營企業50強)", etc. announced by the Confederation of GuangXi's Enterprises and Employers. In the meantime, the "Research and Development Project on Thin Collagen Sausage Casing" (薄型膠原蛋白腸衣研發項目) was awarded "the Second Prize of Wuzhou Science and Technology Advancement" (梧州市科學技術進步獎二等獎) on the Municipal Science and Technology Achievement Award Ceremony and Work Conference held by the Wuzhou People's Government. In addition, the Company was awarded "CAPITAL Outstanding China Enterprise Awards (資本中國傑出企業成績獎)" from Capital Magazine.

Prospects and Strategies

The "Thirteenth Five-Year Plan" is a decisive stage for China in building comprehensively a moderately prosperous society. In 2016, the beginning year of the Thirteenth Five-Year Plan, the central government requires to set up firmly and implement consistently an innovative, coordinated, green, open, and sharing development concept, so as to adapt to the new normal of economic development, adhere to the reforms and opening up, adhere to the keynote of seeking progress in stability, persevere in the strategy of maintaining stable growth, adjusting economic structure, benefiting the people, and avoiding risks, maintain a rational economic operation, strengthen structural reforms, execute the strategy of de-capacity, de-stocking, de-leverage and cost-reducing while expand the aggregate domestic demand moderately, enhance the quality and efficiency of the supply system, improve the effectiveness of investment, and strengthen the continuous growth impetus, so as to improve the overall productivity level of China's society.

Along with the economic growth, the steady increase of the proportion of the middle class favor to the successful transformation of China's economy towards "consumption" type, shifting from "eat more" to "eat better". In respect of meat consumption, the pork consumption market is shifting from quantity-oriented to quality-oriented. There is an increasing awareness of the importance of food safety, product diversification, nutrition and convenience among the consumers.

The Group will enter the phase of transformation and upgrade in 2016. The Group will focus on the strategy of ”de-stocking, lowering costs and maintaining quality”, and strengthen the development of group management model and sales and marketing system and enhances its leadership in the collagen sausage casing market, and implement innovative development so as to provide a solid start and foundation for future development.

The Group will adopt the following strategies for its development which enhances its leadership in the collagen sausage casing market:

Firstly, the de-stocking: The Group will fully review and categorize its inventories, optimize the management of goods stock-in, positioning, and stock-out, increase the efforts in de-stocking, and adjust its de-stocking strategy in a timely manner in response to the market changes to maintain a reasonable stock level and minimize risks.

Secondly, the cost control: The Group will adopt the “Four Strict” policy – strictly control the procurement cost, strictly control wastage in the production process, strictly manage the use of machinery accessories and strictly execute a system of delicacy management, in order to achieve the goal of cost savings.

Thirdly, the enhancement and stabilization of product quality: 2016 is a critical stage for the comprehensive upgrade and stabilization of the product quality of the Group’s collagen casing products. Therefore, the Group will further strengthen its production of new products to meet the market needs and the demand of its customers, in order to accomplish the operating targets for 2016.

In respect of the implementation of innovative development, while strengthening the development to maintain its leadership in the collagen casing market, the Group will capitalize on its core collagen technology and will achieve transformation and upgrade through product diversification with a focus on the health industry:

1. Collagen food products – make use of the collagen processing technology possessed by the Group to develop and produce collagen powder and collagen food products;

2. Skincare products – develop and produce collagen based skincare products through Guangxi Luxianna and Nanning Nuyou;

3. Medical grade collagen products – Medical grade collagen materials is an emerging biotechnology sector but widely used in Europe and the United States. Currently, Guangdong Victory, a 51-percent-owned subsidiary of the Group, is already capable of and possesses the permits for producing medical-grade collagen raw materials. The Group will enhance the efforts in marketing and promotion, expanding the sales of medical collagen raw materials while pushing the clinical tests for the products such as collagen wound dressing and inner-body hemostatic cotton, and obtain the production permits as soon as possible; and

4. Medical products – expand capability of its existing production lines through Sanjian Pharmaceutical to achieve a certain production scale.

The Group will spend one year to lay a solid foundation for a clear and good start by the end of 2016 for the Group’s production diversification.

Facing with economic slowdown, market competition and the various financial risks, the Group is confident that the above measures will continue to boost the sustainable development of the Group, promote the development of collagen sausage casing business, and further widen the technological application of collagen, thus maximizing Shareholders’ return in the long run.

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 the section headed "Chairman and Chief Executive" 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

As at the date of this report, the Board comprised 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 Year, the Board maintained a high level of independence, with one-third of the members 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 Year, the Board held 12 meetings and the individual attendance of the Directors at the Board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	10/12
Mr. Shi Guicheng	10/12
Mr. Ru Xiquan	10/12
Mr. Mo Yunxi	10/12
Mr. Low Jee Keong	10/12
Mr. Tsui Yung Kwok	11/12
Mr. Meng Qinguo	11/12
Mr. Yang Xiaohu	11/12

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.

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 (the "Chairman") and the president of the Company, is also responsible for overseeing the general operations of the Group. The Company has not appointed any chief executive officer 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 code provision A.2.1 of the Code 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 (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 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 2015 and may be terminated by either party by giving not less than three months' prior written notice.

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 2015 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 2015 and may be terminated by either party by giving at least three months' written notice.

In accordance with article 84 of the articles of association (the "Articles") of the Company, at each annual general meeting, at least one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Low Jee Keong will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Board Diversity Policy

The Nomination Committee 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 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 has 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 to ensure they 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 in any suitable training to develop and refresh their knowledge and skills. All Directors including Ms. Zhou Yaxian, 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 auditors, review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, develop and implement policy on the engagement of external auditors 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 therein. 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 Year, the Audit Committee had reviewed the final results for the year ended 31 December 2014, the interim results for the six months ended 30 June 2015 of the Group and the Group's internal controls for the year ended 31 December 2014. The Group's final results for the Year had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and 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 3 meetings during the Year. Details of the attendance of the Audit Committee meetings are as follows:

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

Auditors' Remuneration

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

Type of services	**Fee paid/payable** *RMB'000*
Non-audit services	835
Audit services	2,187
	3,022

Nomination Committee

The Company established the Nomination Committee pursuant to a resolution of the Directors passed on 19 September 2009. The primary duties of the Nomination Committee are to 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 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 is available on the website of the Stock Exchange and the Company as required by the Code.

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

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

At the meeting, the Nomination Committee had reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive Directors, reviewed the Board Diversity Policy 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 had reviewed and made recommendations to the Board on the remuneration policies of the Directors and the senior management as well as the remuneration packages for the years 2014 and 2015 and the performance of the Directors.

Remuneration of Directors and Senior Management

The Group has paid or accrued the amounts of approximately RMB2,684,000, RMB1,069,000, RMB1,069,000, RMB1,069,000, RMB64,000, RMB177,000, RMB177,000 and RMB177,000 to Ms. Zhou Yaxian, 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 2015, 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
HK$1,000,001 to HK$1,500,000	3

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 and are in compliance with the Companies Ordinance (Chapter 622, Laws of Hong Kong), 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 notifiable 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 had conducted a review during the Year on the effectiveness of the system of internal control of the Group, covering all material controls including financial, operational, compliance controls and risks management functions with recommendations for improvement. The recommendations had been reviewed by the Audit Committee and the Board. The Board had adopted the recommendations to enhance the Group's system of internal control.

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.

General Meetings with Shareholders

The 2015 annual general meeting ("2015 AGM") was held on 18 May 2015. The attendance record of the Directors at the 2015 AGM is as follows:

	Attendance/ General Meeting held
Ms. Zhou Yaxian *(Chairman and President)*	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 auditors also attended the 2015 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 25 May 2016.

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 through the following address:

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 58 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 Company 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

There has been no material changes in the Company's constitutional documents during the Year.

DIRECTORS AND SENIOR MANAGEMENT

Aged 56, 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 36 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 Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("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.

Mr. Shi Guicheng

Vice President and Executive Director

Aged 52, 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 23 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 53, Mr. Ru is primarily responsible for matters relating to the Group's accounting, treasury and financial planning. He has nearly 25 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 47, Mr. Mo is primarily responsible for the Group's product and technology developments. He has long been engaged in product development and has nearly 23 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 50, 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 23 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 47, Mr. Tsui was awarded a bachelor's 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 22 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 SMI Culture Group Holdings Limited (formerly known as 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 58, 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 Sealand Securities Co., Ltd. (國海證券股份有限公司) 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 41, Mr. Yang graduated from Peking University, majoring in Economics and minoring in Law in July 1997. Mr. Yang has nearly 17 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

Ms. Cai Yueqing

Vice President

Aged 60, Ms. Cai is primarily responsible for the Group's production management. She has nearly 23 years of experience in the collagen sausage casing industry. Ms. Cai graduated from 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. Wen Jinpei

Vice President

Aged 54, 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's 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 42, 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 20 years of experience in auditing and financial management, which was mostly gained from positions in one of the international firms of certified public accountants from 1996 to 1999 and from 2001 to 2002, and in China Resources Enterprise Limited (Hong Kong Stock Code: 00291), the shares of which are listed on the Stock Exchange, from 2002 to 2007. Mr. Ng attained his bachelor's degree in Computer Science from the University of Hong Kong in November 1995 and is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a CFA Charter holder. Mr. Ng is also the Company Secretary of the Company.

REPORT OF THE DIRECTORS

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

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Group's major subsidiaries are set out in note 1 to the financial statements. During the year, the Group has acquired and expanded into productions and sales of pharmaceutical products, skin care and health care products and bioactive collagen products.

Business Review

Further discussion and analysis of the activities of the Group for the Year and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" as set out on pages 8 to 16 of this annual report. These discussions form part of this directors' report.

Principal Risks and Uncertainties

A number of factors may affect the results and business operations of the Group, some of which are inherent to the industry and some are from external sources. Major risks are summarized below.

The Group's business depends on a stable and adequate supply of raw materials, which is subject to price volatility and other risks

The production volume and production costs of the Group are dependent on the Group's ability to source at acceptable prices and maintain a stable and sufficient supply of raw materials such as cattle's inner skins and packaging materials. If the Group is unable to obtain raw materials in the quantities and of a quality that the Group requires, the volume or quality of the production and the revenue of the Group may be adversely affected.

The Group may face competition from international competitors or competition from other substitutes for edible collagen sausage casing products which may affect the profits of the Group

Overseas competitors may take measures such as establishing production lines in the PRC or reducing price of their products to gain entry into the PRC market. This may cause the Group to experience downward pressure on the price and profit margins.

The Group may also face competition from other substitute products for edible collagen sausage casing products such as natural sausage casing. If the customers prefer any of the substitutes for edible collagen sausage casing products over the products of the Group, the business and profitability of the Group may be adversely affected.

Any substantial changes in the domestic demand of the Group's products in the PRC may adversely affect the performance and profitability of the Group

Sales in the PRC represent a significant proportion of the total revenue of the Group. Accordingly, the operating results and financial position of the Group are largely subject to the economic, political, social and legal developments in the PRC as well as changes in the domestic demand for the Group's products in the PRC. There is no assurance that such changes in the PRC will not adversely affect the performance and profitability of the Group.

Environmental Policies, Performance and Compliance with Laws and Regulations

The Group is committed to building an environmentally-friendly corporation and strives to ensure that its business operations have minimal impact on the environment through recycling and conserving energy.

The Group and its activities are subject to requirements under various laws. The laws and regulations which have a significant impact on the Group include, among others, The Food Safety Law of the PRC (《中華人民共和國食品安全法》), The Regulations on the Implementation of the Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》), The Standardization Law of the PRC (《中華人民共和國標準化法》), The Provisional Detailed Rules for Administration and Supervision of the Quality and Safety in Food Production and Processing Enterprises (《食品生產加工企業質量安全監督管理實施細則(試行)》), The Law of Product Quality of the PRC (《中華人民共和國產品質量法》), The Metrology Law of People's Republic of China (《中華人民共和國計量法》) and The Regulation of the People's Republic of China on the Administration of Production License for Industrial Products (《中華人民共和國工業品生產授權管理條例》). The Group is committed to maintaining legal compliance in business operations and has put in place in-house rules and work procedures to ensure that the Group's operation is in compliance with applicable laws and regulations in material respects.

Key Relationships with Employees, Customers and Suppliers

The Directors consider that human resources are essential to the business success and the development of the Group in the long run. The Group ensures that the remuneration of staff is commensurate with market level and on-the-job training and development are provided to staff members. The Directors also recognize that customers and suppliers are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its suppliers and customers and has ongoing communication with the customers and suppliers through various channels to obtain their feedback and suggestions.

Results and Dividends

The Group's profit for the Year and the Group's financial position at that date are set out in the financial statements on pages 47 to 113.

The Directors recommended the payment of a final dividend of HK3.2 cents per ordinary share for the Year to shareholders whose names appear on the register of members of the Company on 3 June 2016 (Friday) 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 17 June 2016 (Friday).

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 25 May 2016 (Wednesday), the register of members of the Company will be closed from 20 May 2016 (Friday) to 25 May 2016 (Wednesday), both dates inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 19 May 2016 (Thursday). For determining entitlement to the final dividend (if approved at the forthcoming annual general meeting), the register of members of the Company will be closed from 31 May 2016 (Tuesday) to 3 June 2016 (Friday), both dates inclusive. The record date will be 3 June 2016 (Friday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 30 May 2016 (Monday). During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final dividend (if approved at the forthcoming annual general meeting), all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch 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 114. This summary does not form part of the audited financial statements.

Share Capital and Share Options

Details of movements in the Company's authorised or issued share capital are set out in note 28 to the financial statements. Save as disclosed in the section headed "Share Option Scheme" in this Report of the Directors below, there were no other 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 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$*	*HK$*
March 2015	2,000,000	2,000,000	2.20	2.15	4,383,000
August 2015	6,000,000	6,000,000	1.16	1.07	6,727,000
September 2015	16,000,000	16,000,000	1.11	0.98	16,761,000
October 2015	1,000,000	1,000,000	1.07	1.02	1,050,000
November 2015 *(Note)*	2,000,000	2,000,000	1.17	1.15	2,344,000
December 2015 *(Note)*	5,000,000	5,000,000	1.03	0.97	5,015,000
	32,000,000	32,000,000			36,280,000

Note: The 7,000,000 shares repurchased during November and December 2015 were subsequently cancelled on 27 January 2016.

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 2015, 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.

Distributable Reserves

For the Year, the profit attributable to owners of the Company amounted to approximately RMB291,390,000. 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 2015, the Company had distributable reserves amounting to approximately RMB634,598,000, of which approximately RMB87,151,000 has been proposed as a final dividend for the Year, calculated in accordance with statutory provisions applicable in the Cayman Islands.

Charitable Contributions

During the Year, the Group made charitable contributions totalling RMB3,511,910.

Major Customers and Suppliers

During the Year, sales to the Group's five largest customers accounted for approximately 51.5% of the total sales for the Year and sales to the largest customer included therein amounted to approximately 32.6%. Purchases from the Group's five largest suppliers accounted for approximately 40.8% of total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 13.2%.

Wuzhou Junye Trademark Printing Material Co., Ltd ("Wuzhou Junye Printing Material") was one of the Group's five largest suppliers for the Year. 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 close associates (as defined under the Listing Rules) 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 which are set out in the paragraph headed "Share Option Scheme" below.

Directors

The Directors during the Year and as at the date of this report were as follows:

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

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

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

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 27 to 30 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 2015 and may be terminated by either party by giving not less than three months' prior written notice.

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 2015 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 2015 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 Transactions, Arrangements or Contracts

Save as disclosed in note 37 to the financial statements and in the section headed "Connected Transactions" in this report, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's 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 2015, 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)*	2,165,980,000 (L)	66.27%
	Beneficial owner	200,000 (L)	0.01%
Mr. Low Jee Keong ("Mr. Low")	Interest of controlled corporation *(Note 3)*	78,936,000 (L)	2.42%
Mr. Shi Guicheng ("Mr. Shi")	Beneficial owner	800,000 (L)	0.02%
Mr. Ru Xiquan ("Mr. Ru")	Beneficial owner	800,000 (L)	0.02%
Mr. Mo Yunxi ("Mr. Mo")	Beneficial owner	800,000 (L)	0.02%

2. 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 Limited ("Rich Top Future")	Interest of controlled Corporation *(Note 2)*	65,454	65.45%
Mr. Low	Rich Top Future	Interest of controlled Corporation *(Note 3)*	20,835	20.84%

Notes:

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

2. Ms. Zhou holds 100% interest in Shenguan Biology Science & Technology Investment Company Limited ("Hong Kong Shenguan") which holds 100% interest in Glories Site Limited ("Glories Site"), which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng Limited ("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. 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 2015, 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 2015, 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	1,914,240,000 (L)	58.57%
Xian Sheng	Beneficial owner	248,040,000 (L)	7.59%
Glories Site	Interest of controlled corporation *(Note 2)*	1,914,240,000 (L)	58.57%
Hong Kong Shenguan	Interest of controlled corporation *(Note 3)*	2,162,280,000 (L)	66.16%
	Beneficial owner	3,700,000 (L)	0.11%
Mr. Sha Shuming ("Mr. Sha")	Interest of spouse *(Note 4)*	2,166,180,000 (L)	66.28%

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 2015, 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 Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") (a wholly-owned subsidiary of the Company) 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) ("Shennong Pharmaceutical"), 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, pursuant to the deed of non-competition dated 19 September 2009 entered into by Ms. Zhou in favour of the Company (the "Deed of Non-competition"), 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, 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 (the "Right of First Refusal") 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 its shareholders as a whole, for the Company to exercise the Right of First Refusal.

For details of the Acquisition and non-exercise of the 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 close associates (as defined under the Listing Rules), 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 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 2009. 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 the Non-competition Undertakings and up to 31 December 2015, 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 which 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 314,520,000 Shares which represented approximately 9.65% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

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

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

	Number of share options									
Name or category of participant	**At 1 January 2015**	**Granted during the year**	**Exercised during the year**	**Expired/ forfeited during the year**	**At 31 December 2015**	**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*
Mr. Shi	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	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	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)	–					
	3,600,000	–	–	(3,600,000)	–					
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
	1,200,000	–	(400,000)	(800,000)	–	13 Oct 2009	13 Oct 2009 to 12 Oct 2012	12 Oct 2015	2.165	2.165
	1,200,000	–	(280,000)	(920,000)	–	13 Oct 2009	13 Oct 2009 to 12 Oct 2013	12 Oct 2015	2.165	2.165
	1,200,000	–	–	(1,200,000)	–	13 Oct 2009	13 Oct 2009 to 12 Oct 2014	12 Oct 2015	2.165	2.165
	4,280,000	–	(1,360,000)	(2,920,000)	–					
	7,880,000	–	(1,360,000)	(6,520,000)	–					

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; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

Contract of Significance

Save as disclosed in the section headed "Connected Transactions" in this report, 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 Group had the following continuing connected transactions and 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 Trademark Printing Material Co., Ltd.

On 22 December 2014, the Company entered into a sale and purchase agreement with Wuzhou Junye Trademark Printing Material Co., Ltd.* (梧州駿業商標印刷有限公司) ("Wuzhou Junye Printing Material"), pursuant to which Wuzhou Junye Printing Material agreed 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. The purchases by the Group from Wuzhou Junye Printing Material under the said agreement for the Year amounted to RMB19,224,000 and the annual cap set in the said agreement for the Year is RMB25,696,000.

Wuzhou Junye Printing Material is owned by Mr. Sha Shuming ("Mr. Sha"), the spouse of Ms. Zhou Yaxian ("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 22 December 2014, the Company entered into a sale and purchase agreement with Wuzhou Zhongbo Packaging Co., Ltd.* (梧州市中柏包裝有限公司) ("Wuzhou Zhongbo Packaging"), pursuant to which Wuzhou Zhongbo Packaging agreed 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. The purchases by the Group from Wuzhou Zhongbo Packaging under the said agreement for the Year amounted to RMB4,353,000 and the annual cap set in the said agreement for the Year is RMB8,181,000.

* *For identification purpose only*

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 and Exceltech Global Investment Pte Limited

On 22 December 2014, the Company entered into a sale and purchase agreement with LJK Frozen SDN. BHD ("LJK") and Exceltech Global Investment Pte Limited (優良國際投資有限公司) ("Exceltech"), pursuant to which the Company (or any one or more of its subsidiaries) agreed 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. The sales from the Group to LJK and Exceltech under the said agreement for the Year amounted to RMB2,356,000 and the annual cap set in the said agreement for the Year is RMB10,000,000.

LJK is owned by Mr. Low Jee Keong ("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 Guangxi Zhiguan Industrial Development Co., Limited

On 30 October 2015, the Company entered into a long-term framework agreement with Guangxi Zhiguan Industrial Development Co., Limited* (廣西志冠實業開發有公司) ("Guangxi Zhiguan"), pursuant to which Guangxi Zhiguan agreed to supply cattle inner skin to the Company (or any one or more of its subsidiaries) for a period commencing from 1 November 2015 and ending on 31 December 2017. The purchases by the Group from Guangxi Zhiguan under the said agreement for the Year amounted to RMB6,942,000 and the annual cap set in the said agreement for the Year is RMB30,000,000.

Ms. Zhou, together with her associates and Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, each an executive Director, own more than 30% of the equity interest in Guangxi Zhiguan and thus Guangxi Zhiguan is a connected person of the Company under Chapter 14A of the Listing Rules.

For further details of the transactions stated in (i), (ii) and (iii) above, please refer to the announcement issued by the Company on 22 December 2014. For further details of the transaction stated in (iv) above, please refer to the announcement issued by the Company on 30 October 2015.

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.

* *For identification purpose only*

Connected Transactions

(i) Acquisition of entire equity interest in Guangxi Wuzhou Sanjian Pharmaceutical Company Limited

On 26 January 2015, Wuzhou Shenguan Protein Casing Co. Ltd. (梧州神蛋白腸衣有限公司) ("Wuzhou Shenguan") entered into an equity transfer agreement with Mr. Sha, the spouse of Ms. Zhou, 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 "Sanjian Acquisition").

Sanjian Pharmaceutical was wholly-owned by Mr. Sha. Mr. Sha is the spouse of Ms. Zhou, an executive Director and one of the controlling shareholders of the Company, and thus Mr. Sha is a connected person of the Company (as defined under Chapter 14A of the Listing Rules), Sanjian Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

For details of the acquisition of Sanjian Pharmaceutical, please refer to the announcement of the Company dated 26 January 2015.

(ii) Acquisition of 15% equity interest in Ferguson (Wuhan) Biotech Company Limited

On 6 August 2015, Wuzhou Shenguan (as purchaser) entered into an acquisition agreement (the "Acquisition Agreement") with Nanning Zhe Yuan Tang Business Limited* (南寧蔗源糖業有限公司) ("Nanning Zhe Yuan") (as vendor), for the acquisition of 15% equity interest in Ferguson (Wuhan) Biotech Company Limited* (福格森(武漢)生物科技股份有限公司) ("Ferguson Wuhan") at a total consideration of RMB31.1 million payable by Wuzhou Shenguan to Nanning Zhe Yuan in cash (the "Ferguson Acquisition").

Ferguson Wuhan is a company established in the PRC with limited liability at the Wuhan Economic and Technological Zone (武漢經濟技術開發區) in the PRC in 2002, specialising in products in professional health care, nutrition research and development, production and sales services for pregnancy, early childhood and population with special needs. Ferguson Wuhan is principally engaged in the sales of its products under its own "福格森" and "FERGUSON" brand name and owns eight invention patents.

Ferguson Wuhan was formerly owned by Nanning Zhe Yuan and Gobitech Limited as to 15% and 85% respectively. On the same day of the Acquisition Agreement, Gobitech Limited entered into two separate equity transfer agreements with Guangxi Guan Yu Zhiye Limited* (廣西冠裕置業有限公司) ("Guangxi Guan Yu") and Guangxi Shenguan Investment Limited* (廣西神冠投資有限公司) ("Guangxi Shenguan") to transfer its 20% and 45% equity interest in Ferguson Wuhan to Guangxi Guan Yu and Guangxi Shenguan respectively (the "Transfer"). After the Transfer and upon completion of Ferguson Acquisition, Ferguson Wuhan is owned by Wuzhou Shenguan, Guangxi Guan Yu, Guangxi Shenguan and Gobitech Limited as to 15%, 20%, 45% and 20% respectively.

Guangxi Guan Yu is owed by Ms. Zhou, Mr. Ru, Mr. Shi, Mr. Mo and Ms. Cai Yueqing as to 88%, 3%, 3%, 3% and 3% respectively, and Guangxi Shenguan is owned by Ms. Zhou and Ms. Zhou's son – Mr. Sha Junqi as to 95% and 5% respectively. As Ms. Zhou, Mr. Ru, Mr. Shi and Mr. Mo are all executive Directors and are therefore connected persons of the Company (as defined under Chapter 14A of the Listing Rules), the Ferguson Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. After the completion of the Ferguson Acquisition and the Transfer, Wuzhou Shenguan, Guangxi Guan Yu, Guangxi Shenguan and Gobitech Limited entered into a capital increase agreement, pursuant to which, Wuzhou Shenguan, Guangxi Guan Yu, Guangxi Shenguan and Gobitech Limited would make additional capital contribution of RMB6,000,000, RMB8,000,000, RMB18,000,000 and RMB8,000,000 to Ferguson Wuhan, respectively.

* *For identification purpose only*

As the capital contribution will be provided in proportion to the equity interest of the shareholders in Ferguson Wuhan and on normal commercial terms, this connected transaction is fully exempted from the reporting, announcement and shareholders' approval requirements under Rule 14A.89 of the Listing Rules. For details of the Ferguson Acquisition, please refer to the announcement of the Company dated 6 August 2015.

Related Party Transactions

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 37(a) 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 notes 37(b) and (c) 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 2015, 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.

Event after the Balance Sheet Date

There was no important events affecting the Group that have occurred since the end of 31 December 2015.

Permitted Indemnity Provisions

Pursuant to article 164 of the articles of association of the Company, every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

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
18 March 2016

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 set out on pages 47 to 113, which comprise the consolidated statement of financial position as at 31 December 2015, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance 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
18 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	Notes	**2015 RMB'000**	2014 RMB'000
REVENUE	5	**1,054,565**	1,403,008
Cost of sales		**(588,713)**	(633,214)
Gross profit		**465,852**	769,794
Other income and gains	5	**41,016**	38,359
Selling and distribution expenses		**(11,660)**	(17,743)
Administrative expenses		**(140,372)**	(99,663)
Finance costs, net	7	**(17,700)**	(14,610)
PROFIT BEFORE TAX	6	**337,136**	676,137
Income tax expense	10	**(51,558)**	(128,661)
PROFIT FOR THE YEAR		**285,578**	547,476
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(12,493)**	1,078
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(12,493)**	1,078
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**273,085**	548,554
Profit attributable to:			
Owners of the Company		**291,390**	547,476
Non-controlling interests		**(5,812)**	–
		285,578	547,476
Total comprehensive income attributable to:			
Owners of the Company		**278,897**	548,554
Non-controlling interests		**(5,812)**	–
		273,085	548,554
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	12		
Basic (RMB cents per share)		**8.87**	16.50
Diluted (RMB cents per share)		**8.87**	16.50

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,310,261	1,338,270
Prepaid land lease payments	14	122,619	122,292
Goodwill	15	47,486	–
Other intangible assets	16	242,924	–
Available-for-sale investment	17	37,100	–
Contract in progress	18	–	124,249
Deferred tax assets	27	56,326	52,126
Long term prepayments		15,642	6,866
Total non-current assets		1,832,358	1,643,803
CURRENT ASSETS			
Financial asset at fair value through profit or loss	19	353	–
Inventories	20	921,958	847,065
Trade and bills receivables	21	181,904	199,639
Prepayments, deposits and other receivables	22	191,920	62,808
Pledged deposits	23	354,727	546,044
Cash and cash equivalents	23	210,784	399,585
Total current assets		1,861,646	2,055,141
CURRENT LIABILITIES			
Trade and bills payables	24	42,726	98,178
Other payables and accruals	25	114,067	105,467
Interest-bearing bank borrowings	26	544,545	783,144
Tax payable		9,985	11,632
Total current liabilities		711,323	998,421
NET CURRENT ASSETS		1,150,323	1,056,720
TOTAL ASSETS LESS CURRENT LIABILITIES		2,982,681	2,700,523
NON-CURRENT LIABILITIES			
Deferred income		32,663	35,347
Deferred tax liabilities	27	79,523	29,571
Total non-current liabilities		112,186	64,918
Net assets		2,870,495	2,635,605

	Notes	2015 RMB'000	2014 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	28,135	28,425
Reserves	30	2,752,614	2,607,180
		2,780,749	2,635,605
Non-controlling interests		89,746	–
Total equity		2,870,495	2,635,605

Ms. Zhou Yaxian
Director

Mr. Ru Xiquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to owners of the Company										
	Notes	Issued capital *RMB'000*	Share premium account *RMB'000*	Treasury shares *RMB'000* *(note 30(iv))*	Contributed surplus *RMB'000* *(note 30(i))*	Reserve funds *RMB'000* *(note 30(ii))*	Capital reserve *RMB'000*	Employee share-based compensation reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Other reserves *RMB'000* *(note 30(iii))*	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	30(iv)	–	–	(58,529)	–	–	–	–	–	–	–	(58,529)
Cancellation of shares repurchased	30(iv)	(159)	(37,967)	38,126	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	29	–	–	–	–	–	–	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*	(20,403)*	59*	350,681*	4,758*	5,444*	(73,958)*	(264,343)*	1,969,114*	2,635,605

	Notes	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000 (note 30(iv))	Contributed surplus RMB'000 (note 30(i))	Reserve funds RMB'000 (note 30(ii))	Capital reserve RMB'000	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000 (note 30(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company												
At 1 January 2015		28,425	635,828	(20,403)	59	350,681	4,758	5,444	(73,958)	(264,343)	1,969,114	2,635,605	-	2,635,605
Profit for the year		-	-	-	-	-	-	-	-	-	291,390	291,390	(5,812)	285,578
Other comprehensive income for the year: Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(12,493)	-	-	(12,493)	-	(12,493)
Total comprehensive income for the year		-	-	-	-	-	-	-	(12,493)	-	291,390	278,897	(5,812)	273,085
Acquisition of a subsidiary	32	-	-	-	-	-	-	-	-	-	-	-	95,158	95,158
Capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	400	400
Share repurchase	30(iv)	-	-	(29,770)	-	-	-	-	-	-	-	(29,770)	-	(29,770)
Cancellation of shares repurchased	30(iv)	(301)	(43,732)	44,033	-	-	-	-	-	-	-	-	-	-
Share option exercised	29	11	3,210	-	-	-	-	(897)	-	-	-	2,324	-	2,324
Transfer of share option reserve upon the expiry of share options	29	-	-	-	-	-	-	(4,547)	-	-	4,547	-	-	-
Final 2014 dividend	11	-	(106,307)	-	-	-	-	-	-	-	-	(106,307)	-	(106,307)
Transfer from retained profits		-	-	-	-	19,042	-	-	-	-	(19,042)	-	-	-
At 31 December 2015		28,135	488,999*	(6,140)*	59*	369,723*	4,758*	–*	(86,451)*	(264,343)*	2,246,009*	2,780,749	89,746	2,870,495

* *These reserve accounts comprise the consolidated reserves of RMB2,752,614,000 (2014: RMB2,607,180,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		337,136	676,137
Adjustments for:			
Interest on bank loans	7	20,299	17,702
Bank interest income	5	(22,326)	(16,283)
Interest income from held-to-maturity investments	5	–	(2,387)
Gain on disposal of financial assets at fair value through profit or loss	5	(10,033)	(12,006)
Loss on disposal of items of property, plant and equipment, net	6	23,797	2,442
Depreciation	6	96,257	89,982
Amortisation of prepaid land lease payments	6	2,984	2,541
Amortisation of other intangible assets	6	15,604	–
Impairment of goodwill	6	1,804	–
Government grants released		(9,988)	(13,713)
Equity-settled share option expense	6	–	247
Exchange loss on intercompany loans		13,021	–
		468,555	744,662
Increase in inventories		(66,825)	(346,759)
Decrease in trade and bills receivables		25,059	18,373
Decrease in prepayments, deposits and other receivables		30,950	16,893
Decrease in trade and bills payables		(60,866)	(10,361)
Decrease in other payables and accruals		(7,668)	(31,543)
Receipt of government grants		7,304	11,030
Cash generated from operations		396,509	402,295
Interest received		3,665	11,244
Hong Kong profits tax paid		(280)	–
PRC corporate income tax paid		(72,459)	(132,693)
Net cash flows from operating activities		327,435	280,846
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(122,125)	(45,202)
Proceeds from disposal of items of property, plant and equipment		–	429
Acquisition of subsidiaries	32	(116,136)	–
Increase in contract in progress		(96)	(13,000)
Prepayments of land lease payments		(6,700)	–
Redemption of held-to-maturity investments		–	58,370
Net increase in financial assets at fair value through profit or loss	5	10,033	12,006
Purchase of an available-for-sale investment		(37,100)	–
(Increase)/decrease in non-pledged time deposits with original maturity of more than three months when acquired		(100,000)	110,000
Decrease/(increase) in pledged deposits		191,317	(546,044)
Net cash flows used in investing activities		(180,807)	(423,441)

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from exercise of share option		2,324	–
New bank loans		453,464	785,350
Repayment of bank loans		(737,789)	(200,000)
Interest paid		(20,039)	(17,402)
Share repurchase	30(iv)	(29,770)	(58,529)
Capital contribution by a non-controlling shareholder		400	–
Dividends paid		(106,307)	(498,725)
Net cash flows (used in)/from financing activities		(437,717)	10,694
NET DECREASE IN CASH AND CASH EQUIVALENTS		(291,089)	(131,901)
Cash and cash equivalents at beginning of year		399,585	531,412
Effect of foreign exchange rate changes, net		2,288	74
CASH AND CASH EQUIVALENTS AT END OF YEAR		110,784	399,585
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	97,281	311,522
Non-pledged time deposits with original maturity of less than three months when acquired		13,503	88,063
Cash and cash equivalents as stated in the consolidated statement of cash flows		110,784	399,585
Non-pledged time deposits with original maturity of over three months when acquired		100,000	–
Cash and cash equivalents as stated in the consolidated statement of financial position	23	210,784	399,585

1. Corporate and Group 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 address 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 Group is principally engaged in the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, skin care and health care products and bioactive collagen products.

In the opinion of the directors, the immediate holding company of the Company is Rich Top Future Limited, 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, a Hong Kong incorporated company.

Information about subsidiaries

Particulars of the Company's principal 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	Indirect	Principal activities
Forever Gather Limited	Hong Kong	HK$1	–	100%	Sale of collagen sausage casing
梧州神冠蛋白腸衣有限公司 ("Wuzhou Shenguan Protein Casing Co., Ltd.") ("Wuzhou Shenguan")*/^	The People's Republic of China (the "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.") ("Wuzhou Shensheng")**/^	PRC/Mainland China	RMB200,000,000	–	100%	Manufacture and sale of collagen and collagen sausage casing
南寧女友保健品有限責任公司 ("Nanning Nuyou Health Care Products Co., Ltd") ("Nanning Nuyou")**/^	PRC/Mainland China	RMB500,000	–	100%	Manufacture and sale of skin care and health care products
廣東勝馳生物科技有限公司 ("Guangdong Victory Biological Company Limited") ("Guangdong Victory")*/^	PRC/Mainland China	RMB13,086,542	–	51%	Manufacture and sale of bioactive collagen products
廣西梧州三箭制葯有限公司 ("Wuzhou Sanjian Pharmaceutical Co., Ltd") ("Sanjian Pharmaceutical")**/^	PRC/Mainland China	RMB25,000,000	–	100%	Manufacture and sale of pharmaceutical products

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

* *These entities are registered as Sino-foreign joint ventures 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*

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

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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a financial asset at fair value through profit or loss which has been measured in fair value. 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 (collectively referred to as the "Group") for the year ended 31 December 2015. 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 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

2.1 Basis of Presentation (Continued)

Basis of consolidation (Continued)

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

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

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follow:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economics characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments had no impact on the Group as the Group does not receive any management services from other entities.

2.2 Changes in Accounting Policies And Disclosures (Continued)

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 an the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively.

The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an assets or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") issued by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

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

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 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
4 No mandatory effective date is determined but is available for early adoption

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

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

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. During 2015, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of the HKFRS 9 are summarised as follows:

(a) Classification and measurement
The Group does not expect that the adoption of HKFRS 9 will have significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment
HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

Amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to HKFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to HKFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 9 to present the disclosures in respect of investment entities in accordance with HKFRS 12. HKAS 28 (2011) was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interests in its subsidiaries. The amendments are not expected to have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

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

HKFRS 15 establishes a new five-step model to account for 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. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

2.4 Summary of Significant Accounting Policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 Summary of Significant Accounting Policies (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

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.

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);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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% to 10%
Plant and machinery	6.4% to 19%	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.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill)

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

The Group's intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation of trademarks and technology knowhow is calculated using the straight-line method to allocate the cost over their estimated useful lives, as follows:

Trademarks	5 years
Technology knowhow	5 years

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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 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.

Available-for-sale financial investments

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

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).

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 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.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 Summary of Significant Accounting Policies (Continued)

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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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 consolidated statement 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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.

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;

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

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

(c) 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.

Land development investment contract

The Group has entered into a land development investment contract with a local government in 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 sales 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 29 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payments (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether 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 Schemes

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)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 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 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.

3. 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 goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of trade and bills receivables, and other receivables. The identification of doubtful debts requires 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 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.

3. 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 2015, the Group had unremitted earning that were subject to withholding taxes amounted to approximately RMB1,916,186,000 (2014: 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.

Useful lives and residual values of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives, residual values and related depreciation or amortisation charges for its property, plant and equipment and intangible asset. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible asset of similar nature and functions. Management will increase the depreciation or amortisation charges where useful lives are less than previously estimated lives or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

Contingent consideration of arising from business combinations

One of the Group's business acquisitions has involved post-acquisition performance-based contingent consideration. The Group follows the requirement of HKFRS 3 (Revised) to recognise the fair value of the contingent consideration for acquisition, as of its acquisition date as part of the consideration transferred in exchange for the acquired business/subsidiary. The fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired subsidiary/business and significant judgement on time value of money. Contingent consideration shall be remeasured at their fair value resulting from events or factors emerging after the acquisition date, with any resulting gain or loss recognised in the consolidated profit or loss in accordance with HKFRS 3 (Revised).

4. Operating Segment Information

The Group is engaged in the principal business of the manufacture and sale of edible collagen sausage casing products. The Group also involves in the manufacture and sale of pharmaceutical products, skin care and health care products and bioactive collagen products.

Since over 90% of the Group's revenue is generated by its edible collagen sausage casing products, no operating segments have been aggregated to form the above reportable operating segment.

4. Operating Segment Information (Continued)

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 2015, revenue generated from a customer of the Group, excluding value added tax, amounting to RMB343,616,000 (2014: RMB478,165,000) has individually accounted for over 10% of the Group's total revenue.

5. Revenue, Other Income and Gains

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of service rendered during the year.

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

	2015 *RMB'000*	2014 *RMB'000*
Revenue		
Sale of goods	1,054,366	1,403,008
Service income	199	–
	1,054,565	1,403,008
Other income		
Bank interest income	22,326	16,283
Interest income from held-to-maturity investments	–	2,387
Sale of dried meat products	972	403
Government grants*	5,912	5,888
Others	1,773	1,392
	30,983	26,353
Gains		
Gain on disposal of financial assets at fair value through profit or loss	10,033	12,006
Total other income and gains	41,016	38,359

* *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 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 2015 (2014: Nil).*

6. Profit Before Tax

The Group's profit before tax is arrived at after charging:

	Notes	2015 RMB'000	2014 RMB'000
Employee benefit expense (including directors' remuneration) *(note 8)*:			
Wages and salaries		**104,603**	104,773
Equity-settled share option expense	*29*	**–**	247
Retirement benefit contributions		**40,960**	32,281
		145,563	137,301
Auditors' remuneration		**2,187**	1,937
Cost of inventories sold		**588,713**	633,214
Depreciation	*13*	**96,257**	89,982
Amortisation of prepaid land lease payments*	*14*	**2,984**	2,541
Impairment of goodwill*	*15*	**1,804**	–
Amortisation of other intangible assets*	*16*	**15,604**	–
Minimum lease payments under operating leases		**1,168**	1,009
Loss on disposal of items of property, plant and equipment, net*		**23,797**	2,442
Impairment of trade and bills receivables*	*21*	**4,847**	9,688
Foreign exchange differences, net		**12,049**	205

* *The amortisation of prepaid land lease payments and intangible assets, impairment of goodwill and impairment of trade and bills receivables are included in "Administration expenses" in the consolidated statement of profit or loss and other comprehensive income.*

7. Finance Costs, Net

	2015 RMB'000	2014 RMB'000
Interest on bank loans	**20,299**	17,702
Arrangement fee	**2,684**	4,733
Less: Government grants*	**(5,283)**	(7,825)
	17,700	14,610

* *Various government grants have been received in respect of interest expenses incurred for the purchase of certain raw materials in 2015 and 2014. 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 2015 and 2014.*

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2015	2014
	RMB'000	*RMB'000*
Fees	**851**	929
Other emoluments:		
Salaries, allowances and benefits in kind	**2,326**	2,316
Discretionary performance-related bonuses*	**3,300**	7,968
Equity-settled share option expense	**–**	164
Retirement benefit contributions	**9**	8
	5,635	10,456
	6,486	11,385

* *Executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit before tax of Wuzhou Shenguan and its subsidiaries.*

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. During the year, these options have been expired. The fair value of these options, which had 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 year ended 31 December 2014 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:

	2015	2014
	RMB'000	*RMB'000*
Mr. Tsui Yung Kwok	**177**	187
Mr. Meng Qinguo	**177**	187
Mr. Yang Xiaohu	**177**	187
	531	561

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

8. 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
2015						
Executive directors:						
Ms. Zhou Yaxian	64	1,120	1,500	–	–	2,684
Mr. Shi Guicheng	64	402	600	–	3	1,069
Mr. Ru Xiquan	64	402	600	–	3	1,069
Mr. Mo Yunxi	64	402	600	–	3	1,069
	256	2,326	3,300	–	9	5,891
Non-executive director:						
Mr. Low Jee Keong	64	–	–	–	–	64
	320	2,326	3,300	–	9	5,955
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

* *Retired on 1 June 2014*

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included three directors (2014: five directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2014: Nil) highest paid employee who is neither a director nor chief executive of the Company is as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	2,131	–
Discretionary performance related bonuses	445	–
Retirement benefit contributions	36	–
	2,612	–

The non-director and non-chief executive highest paid employees whose remuneration fell within the following band are as follows:

	Number of employees	
	2015	2014
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	1	–
	2	–

10. Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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 and Wuzhou Shensheng, 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).

	2015 RMB'000	2014 RMB'000
Current – PRC	69,488	121,281
Current – Hong Kong		
Charge for the year	1,612	806
Overprovision in prior years	(16)	–
Deferred tax	(19,526)	6,574
Total tax charge for the year	51,558	128,661

10. Income Tax (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:

2015

	Mainland China		Hong Kong		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit before tax	**334,201**		**2,935**		**337,136**	
Tax at the statutory tax rates	**83,550**	**25.0**	**484**	**16.5**	**84,034**	**24.9**
Lower tax rate for specific province or enacted by local authority	**(35,230)**		**–**		**(35,230)**	
Overprovision in prior years	**–**		**(16)**		**(16)**	
Expenses not deductible for tax	**2,718**		**1,159**		**3,877**	
Income not subject to tax	**(1,352)**		**(308)**		**(1,660)**	
Tax losses utilised from previous years	**–**		**(2)**		**(2)**	
Tax losses not recognised	**–**		**555**		**555**	
Tax charge at the Group's effective rate	**49,686**	**14.9**	**1,872**	**63.8**	**51,558**	**15.3**

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

11. Dividends

	2015 RMB'000	2014 RMB'000
Interim dividend – Nil (2014: HK4.3 cents) per ordinary share	–	112,892
Interim special dividend – Nil (2014: HK3.2 cents) per ordinary share	–	84,012
Final dividend proposed subsequent to the reporting period		
– HK3.2 cents (2014: HK4.1 cents) per ordinary share	87,151	107,369
	87,151	304,273

The final dividend for the year ended 31 December 2015 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 Equity Holders of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB291,390,000 (2014: RMB547,476,000) and the weighted average number of 3,283,494,000 ordinary shares (2014: 3,318,848,000) in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 December 2015 is based on the profit for the year attributable to ordinary owners of the Company of RMB291,390,000. The weighted average number of ordinary shares used in the calculation 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 ordinary shares of 274,000 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount 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 amount presented.

13. Property, Plant and Equipment

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2015					
At 31 December 2014 and 1 January 2015:					
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
At 1 January 2015, net of accumulated depreciation	446,719	764,778	9,483	117,290	1,338,270
Additions	16,576	12,873	2,919	48,512	80,880
Acquisition of subsidiaries *(note 32)*	4,292	5,688	79	1,106	11,165
Disposals	(3,760)	(19,558)	(479)	–	(23,797)
Depreciation provided during the year	(17,717)	(76,961)	(1,579)	–	(96,257)
Transfers	21,400	8,535	–	(29,935)	–
At 31 December 2015, net of accumulated depreciation	467,510	695,355	10,423	136,973	1,310,261
At 31 December 2015:					
Cost	550,333	1,019,165	19,050	136,973	1,725,521
Accumulated depreciation	(82,823)	(323,810)	(8,627)	–	(415,260)
Net carrying amount	467,510	695,355	10,423	136,973	1,310,261

13. Property, Plant and Equipment (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014					
At 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

14. Prepaid Land Lease Payments

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**124,911**	117,984
Additions during the year	**–**	9,468
Acquisition of a subsidiary *(note 32)*	**3,694**	–
Recognised during the year *(note 6)*	**(2,984)**	(2,541)
Carrying amount at 31 December	**125,621**	124,911
Current portion included in prepayments, deposits and other receivables	**(3,002)**	(2,619)
Non-current portion	**122,619**	122,292

15. Goodwill

	RMB'000
Cost at 1 January 2014, 31 December 2014 and 1 January 2015	–
Acquisition of subsidiaries *(note 32)*	49,290
Impairment during the year *(note 6)*	(1,804)
Cost and net carrying amount at 31 December 2015	47,486
At 31 December 2015:	
Cost	49,290
Accumulated impairment	(1,804)
Net carrying amount	47,486

Impairment test of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Skin care and health care products cash-generating unit; and
- Bioactive collagen products cash-generating unit.

Skin care and health care products cash-generating unit

The recoverable amount of the skin care and health care products cash-generating unit has been determined based on a value in use calculation using pre-tax cash flow based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to cash flow projections is 9.32%. Due to uncertainties, no growth rate was used to extrapolate the cash flows of the skin care and health care products cash-generating unit beyond the five-year period.

Assumptions were used in the value in use calculations of the skin care and health care products cash-generating unit for the year ended 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the past performance and management's expectations for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant units.

Based on the annual impairment test performed, an impairment loss of RMB1,804,000 has been provided in relation to the skin care and health care products business as the cash-generating unit has recoverable amount of nil. The impairment loss arose as a result of the less than satisfactory expected performance of the cash-generating unit of the skin care and health care products business.

Bioactive collagen products cash-generating unit

The recoverable amount of the bioactive collagen products cash-generating unit has been determined based on a value in use calculation using pre-tax cash flow based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to cash flow projections is 27.0%, with a terminal growth rate of 2.9%.

15. Goodwill (Continued)

Bioactive collagen products cash-generating unit (Continued)

Assumptions were used in the value in use calculations of the bioactive collagen products cash-generating unit for the year ended 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Sales growth rates – The sales growth rates on certain product types are based on expected market share after obtaining the production permits of certain medicinal products and management experience in the industry.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the management's expectations for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

16. Other Intangible Assets

	Trademarks *RMB'000*	Technology knowhow *RMB'000*	Total *RMB'000*
At 1 January 2015	–	–	–
Acquisition of subsidiaries *(note 32)*	4,542	253,986	258,528
Amortisation provided during the year *(note 6)*	(680)	(14,924)	(15,604)
At 31 December 2015	3,862	239,062	242,924
At 31 December 2015:			
Cost	4,542	253,986	258,528
Accumulated amortisation	(680)	(14,924)	(15,604)
Net carrying amount	3,862	239,062	242,924

17. Available-For-Sale Investment

	2015 *RMB'000*	2014 *RMB'000*
Unlisted equity investment, at cost	37,100	–

As at 31 December 2015, the unlisted equity investment with a carrying amount of RMB37,100,000 (2014: Nil) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

18. Contract in Progress

	2015 RMB'000	2014 RMB'000
At 1 January	124,249	98,082
Additions	1,096	26,167
Transfer to other receivables included in prepayments, deposits and other receivables	(125,345)	–
At 31 December	–	124,249

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 the land development conducted by the local government (the "Land Retirement Project"). The land parcels will be subsequently sold by the local government through public auction. The Group is entitled to a certain portion of sales proceeds arising from these land sales. The entire land development is expected to be completed in phases 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 (the "Contract Costs") and are classified as "Contract in progress" as at 31 December 2014.

During the year, due to the delayed plan of public auction by the local development and the Group's thought of better cash payment, the Group had conducted continuous negotiation with the local government on withdrawing from the contract. Accordingly, the Contract Costs were transferred to other receivables included in "prepayments, deposits and other receivables" as at 31 December 2015.

Subsequent to the end of reporting period, on 2 March 2016, the Group entered into a settlement agreement, pursuant to which the local government agreed the Group to transfer the Land Development Project back to the local government and refund the Contract Costs incurred by the Group on the Land Development Project. The Contract Costs have been fully refunded to the Group in March 2016.

In the opinion of the directors, no provision for impairment is necessary for the Contract Costs.

19. Financial Asset at Fair Value Through Profit or Loss

	2015 RMB'000	2014 RMB'000
Put option	353	–

Pursuant to the Guangdong Victory Agreement (as defined in note 32(iii)), the Group was granted with a put option, whereby the Group has the discretion to request Enneford (as defined in note 32(iii)), to repurchase the 51% equity interest in Guangdong Victory owned by the Group at a consideration of RMB148,800,000 and the capital contribution made by the Group (if any), if the annual sales revenue of Guangdong Victory fails to reach RMB120,000,000 and fails to obtain the production permits of certain medical products for the year ending 31 December 2020.

19. Financial Asset at Fair Value Through Profit or Loss (Continued)

The option is exercisable as at the date immediately after 31 December 2020. The option is measured at fair value estimated by an independent valuer by using the Binomial Option Pricing Model. The key inputs into the model for the value of the option as at 31 December 2015 were as follows:

	Put option
Strike (RMB'000)	199,560
Maturity (year)	5.00
Risk free rate (%)	2.35
Volatility (%)	41.9

In assessing the fair value of the put option, the Binomial Option Pricing Model was used. This model is one of the generally accepted methodologies used to calculate the fair value of the put option. It requires the input of subjective assumptions. Any changes in these assumptions can significantly affect the estimate of the fair value of the put option.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2015:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Put option	Binomial Option Pricing Model	Long term growth rate for cash flows	2015: -1% to 1%	1% increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB15,000
		Long term operating margin	2015: -10% to 10%	10% increase/(decrease) in operating margin would result in increase/(decrease) in fair value by RMB31,000

20. Inventories

	2015 RMB'000	2014 RMB'000
Raw materials	65,935	103,894
Work in progress	130,854	89,468
Finished goods	725,169	653,703
	921,958	847,065

21. Trade and Bills Receivables

	2015 RMB'000	2014 RMB'000
Trade receivables	185,575	199,601
Bills receivable	17,309	13,156
Due from a related company	2,356	5,371
Impairment	(23,336)	(18,489)
	181,904	199,639

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 ageing 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:

	2015 RMB'000	2014 RMB'000
Within 3 months	170,640	175,759
3 to 4 months	3,744	3,824
Over 4 months	7,520	20,056
	181,904	199,639

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

	2015 RMB'000	2014 RMB'000
At 1 January	18,489	8,801
Impairment losses recognised *(note 6)*	4,847	9,688
At 31 December	23,336	18,489

21. 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 RMB23,336,000 (2014: RMB18,489,000) with a carrying amount before provision of RMB31,077,000 (2014: RMB23,314,000).

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 ageing analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	**161,789**	173,975
Less than 1 month past due	**4,486**	1,784
1 to 2 months past due	**3,375**	3,824
2 to 4 months past due	**4,513**	2,320
4 to 9 months past due	–	7,338
Over 9 months past due	–	5,573
	174,163	194,814

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:

	At 31 December 2015 RMB'000	**Maximum amount outstanding during the year RMB'000**	At 31 December 2014 and 1 January 2015 RMB'000	Maximum amount outstanding during the year RMB'000	At 1 January 2014 RMB'000
LJK Frozen SDN. BHD. ("LJK") *(note)*	**2,356**	**5,371**	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.

22. Prepayments, Deposits and Other Receivables

	2015 RMB'000	2014 RMB'000
Prepayments	20,720	22,993
Deposits and other receivables	171,200	39,815
	191,920	62,808

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

23. Cash and Cash Equivalents and Pledged Deposits

	2015 RMB'000	2014 RMB'000
Cash and bank balances	97,281	311,522
Time deposits	468,230	634,107
	565,511	945,629
Less: Pledged time deposits for short term bank loans (*note 26(b)*)	(354,727)	(546,044)
Cash and cash equivalents	210,784	399,585

At the end of the reporting period, the cash and bank balances (including time deposits) of the Group denominated in RMB amounted to RMB531,592,000 (2014: RMB898,350,000). 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.

24. Trade and Bills Payables

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

	2015 RMB'000	2014 RMB'000
Within 1 month	32,411	40,680
1 to 2 months	2,090	47,412
2 to 3 months	1,016	6,317
Over 3 months	7,209	3,769
	42,726	98,178

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

25. Other Payables and Accruals

	2015 RMB'000	2014 RMB'000
Advances from customers	9,341	7,845
Accruals	14,766	20,651
Other payables	89,960	76,971
	114,067	105,467

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

26. Interest-Bearing Bank Borrowings

	2015			2014		
	Effective interest rate (%)	Maturity	RMB'000	Effective interestrate (%)	Maturity	RMB'000
Current						
Bank loans – secured	HIBOR+1	On demand	322,545	1.22–1.55	On demand	500,144
Bank loans – unsecured	4.60–5.60	2016	222,000	6.00	2015	283,000
			544,545			783,144

26. Interest-Bearing Bank Borrowings (Continued)

	2015 RMB'000	2014 RMB'000
Analysed into:		
Within one year or on demand	544,545	783,144

Notes:

(a) Except for the secured bank loans which are denominated in HK$, all of the Group's bank borrowings were denominated in RMB as at 31 December 2015 (2014: all unsecured bank loans were denominated in RMB).

(b) As at 31 December 2015, time deposits of RMB354,727,000 (2014: RMB546,044,000) were pledged to secure bank borrowings of RMB322,545,000 (2014: RMB500,144,000).

(c) As at 31 December 2015, the Group's bank borrowings of RMB222,000,000 (2014: RMB283,000,000) were at fixed rates.

(d) As at 31 December 2015, except for the unsecured bank loans bearing interest at rates of 4.60%–5.60% (2014: 6.00%), the Group's other bank loans were secured, bear interests at 1% (2014: 1.00%–1.30%) above the Hong Kong Interbank Offer Rate per annum and are repayable on demand.

27. Deferred Tax

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

Deferred tax assets

	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 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 10)*	(402)	(255)	509	1,453	19,821	21,126
At 31 December 2014 and 1 January 2015	5,302	1,292	3,487	2,774	39,271	52,126
Acquisition of subsidiaries *(note 32)*	–	–	–	997	–	997
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	(402)	104	(1,329)	916	3,914	3,203
At 31 December 2015	4,900	1,396	2,158	4,687	43,185	56,326

27. Deferred Tax (Continued)

Deferred tax liabilities

	Depreciation in excess of related depreciation allowance *RMB'000*	Fair value adjustments arising from acquisition of subsidiaries *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2014	–	–	1,871	1,871
Deferred tax charged to profit or loss during the year *(note 10)*	–	–	27,700	27,700
At 31 December 2014 and 1 January 2015		–	29,571	29,571
Acquisition of subsidiaries *(note 32)*	–	66,264	–	66,264
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	275	(3,984)	(12,614)	(16,323)
Exchange difference	11	–	–	11
At 31 December 2015	286	62,280	16,957	79,523

The Group has tax losses arising in Hong Kong of HK$17,673,000 (2014: HK$12,573,000), which was equivalent to RMB14,199,000 (2014: RMB9,962,000) 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.

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 RMB1,916,186,000 (2014: RMB1,644,922,000) at 31 December 2015. 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.

28. Share Capital

	2015 HK$'000	2014 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,268,276,000 (2014: 3,304,016,000) ordinary shares of HK$0.01 each	**32,683**	33,040
Equivalent to RMB'000	**28,135**	28,425

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 share RMB'000	Equivalent shares premium RMB'000	Equivalent total RMB'000
At 1 January 2014	3,324,120,000	33,242	1,330,460	28,584	1,172,520	1,201,104
Cancellation of share repurchased	(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 and 1 January 2015	**3,304,016,000**	**33,041**	**652,227**	**28,425**	**635,828**	**664,253**
Cancellation of share repurchased *(note 30 (iv))*	**(37,100,000)**	**(371)**	**(54,364)**	**(301)**	**(43,732)**	**(44,033)**
Share options exercised *(note 29)*	**1,360,000**	**13**	**4,017**	**11**	**3,210**	**3,221**
Final 2014 dividend	**–**	**–**	**(134,904)**	**–**	**(106,307)**	**(106,307)**
At 31 December 2015	**3,268,276,000**	**32,683**	**466,976**	**28,135**	**488,999**	**517,134**

29. Share Option Scheme

In order to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the ''Scheme'') on 19 September 2009 whereby the board 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 date of listing of the Company's Share.

29. 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:

	2015		2014	
	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	2.165	7,880	2.165	7,880
Exercised during the year	2.165	(1,360)	–	–
Expired during the year	2.165	(6,520)	–	–
At 31 December	–	–	2.165	7,880

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.46 per share (2014: No share options were exercised).

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

2015

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

2014

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 was 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 during the year ended 31 December 2014.

29. 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.

The 1,360,000 share options exercised during the year resulted in the issue of 1,360,000 ordinary shares of the Company and new share capital of HK$13,000 (RMB11,000) and share premium of HK$4,017,000 (RMB3,210,000) (before issue expenses).

At 31 December 2014, 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 no share options outstanding under the Scheme.

30. Reserves

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.

30. Reserves (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 2015, the Company repurchased its own ordinary shares of 32,000,000 (2014: 32,204,000) on the Stock Exchange for an aggregate consideration of HK$36,280,000 equivalent to RMB29,770,000 (2014: HK$73,941,000 equivalent to RMB58,529,000) of which 37,100,000 (2014: 20,104,000) ordinary shares were cancelled by the Company as at 31 December 2015. Upon the cancellation of the 37,100,000 (2014: 20,104,000) shares repurchased, the issued share capital of the Company was reduced by the par value of HK$371,000 equivalent to RMB301,000 (2014: HK$201,000 equivalent to RMB159,000) and the premium paid on the repurchase of these cancelled shares of HK$54,364,000 equivalent to RMB43,732,000 (2014: HK$47,926,000 equivalent to RMB37,967,000), including transaction costs, was deducted from share premium of the Company. As at 31 December 2015, 7,000,000 (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$7,359,000, which is equivalent to RMB6,140,000 (2014: HK$25,814,000 equivalent to RMB20,403,000). These shares were subsequently cancelled on 27 January 2016.

31. Partly-Owned Subsidiary with Material Non-Controlling Interests

Details of the Group's subsidiary that have material non-controlling interests are set out below:

	2015	2014
Percentage of equity interest held by non-controlling interests of Guangdong Victory	49%	–

	2015 RMB'000	2014 RMB'000
Loss for the year allocated to non-controlling interests of Guangdong Victory	(5,448)	–
Dividends paid to non-controlling interests of Guangdong Victory	–	–
Accumulated balance of non-controlling interests at the reporting date of Guangdong Victory	89,553	–

The following tables illustrate the summarised financial information of the above subsidiary for the period from 21 August 2015 (date of acquisition) to 31 December 2015. The amounts disclosed are before any inter-company eliminations:

2015	RMB'000
Revenue	376
Total expenses	(11,494)
Loss for the year	(11,118)
Total comprehensive loss for the year	(11,118)
Current assets	5,101
Non-current assets	240,567
Current liabilities	(2,820)
Non-current liability	(59,766)
Net cash flows from operating activities	407
Net cash flows used in investing activities	(312)
Net increase in cash and cash equivalents	95

32. Business Combination

The fair values of the identifiable assets and liabilities of the subsidiaries as at the dates of acquisition were as follows:

	Sanjian Pharmaceutical *RMB'000* *(note (i))*	Nanning Nuyou *RMB'000* *(note (ii))*	Guangdong Victory *RMB'000* *(note (iii))*	Total *RMB'000*
Property, plant and equipment	9,703	1	1,461	11,165
Prepaid land lease payments	3,694	–	–	3,694
Intangible assets	4,542	–	253,985	258,528
Deferred tax assets	902	–	95	997
Cash and cash equivalents	17,005	1	48	17,054
Trade and bills receivables	6,463	282	9	6,754
Prepayments, deposits and other receivables	12,191	16	4,542	16,749
Inventories	8,008	60	–	8,068
Trade payables	(5,318)	(96)	–	(5,414)
Bank borrowings	(19,000)	–	–	(19,000)
Other payables and accruals	(30,551)	(534)	(2,445)	(33,530)
Tax payable	(62)	(34)	–	(96)
Deferred tax liabilities	(2,767)	–	(63,497)	(66,264)
Non-controlling interests	–	–	(95,158)	(95,158)
Net identifiable assets and liabilities	4,810	(304)	99,041	103,547
Goodwill	–	1,804	47,486	49,290
Contingent consideration – financial asset at fair value through profit or loss	–	–	353	353
	4,810	1,500	146,880	153,190
Satisfied by:				
Cash	4,810	1,500	126,880	133,190
Consideration payable	–	–	20,000	20,000
	4,810	1,500	146,880	153,190

32. Business Combination (continued)

An analysis of net cash outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

	Sanjian Pharmaceutical *RMB'000* *(note (i))*	Nanning Nuyou *RMB'000* *(note (ii))*	Guangdong Victory *RMB'000* *(note (iii))*	Total *RMB'000*
Cash consideration	(4,810)	(1,500)	(126,880)	(133,190)
Cash and bank balances acquired	17,005	1	48	17,054
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition	12,195	(1,499)	(126,832)	(116,136)

	Sanjian Pharmaceutical *RMB'000*	Nanning Nuyou *RMB'000*	Guangdong Victory *RMB'000*	Total *RMB'000*
Revenue for the period ended 31 December 2015 since acquisition	15,192	5	376	15,573
Profit/(loss) for the period ended 31 December 2015 since acquisition	(60)	(219)	74	(205)
Transaction costs involved	68	10	263	341

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been RMB285,012,000 and the Group's revenue would have been RMB1,060,725,000.

32. Business Combination (continued)

Notes:

(i) Acquisition of Sanjian Pharmaceutical

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 Sanjian Pharmaceutical at a cash consideration of RMB4,810,000. The acquisition was completed on 16 March 2015 which was made as part of the Group's strategy to diversify and expand the existing businesses of the Group and create a new revenue stream.

Details of the acquisition are set out in the Company's announcement dated 26 January 2015.

(ii) Acquisition of Nanning Nuyou

On 11 May 2015, Shenguan Investment Development, a subsidiary of the Group, contributed capital of RMB5,000,000 to establish a wholly-owned subsidiary, Guangxi Luxianna Biotechnology Co., Ltd ("Luxianna"), in Nanning, Guangxi. On 21 May 2015, Luxianna entered into an equity transfer agreement with an independent third party, Ms. Wu Zhiling ("Ms. Wu"), pursuant to which Ms. Wu agrees to sell and Luxianna agrees to acquire the entire equity interest in Nanning Nuyou at a cash consideration of RMB1,500,000. The transaction has been completed on 9 July 2015.

(iii) Acquisition of Guangdong Victory

On 20 July 2015, Shenguan Investment Development entered into an equity transfer agreement ("Guangdong Victory Agreement") with Enneford Industrial Limited ("Enneford"), an independent third party incorporated in Hong Kong with limited liability, pursuant to which Shenguan Investment Development agreed to acquire and Enneford agreed to sell 51% equity interests in Guangdong Victory at a cash consideration of RMB146,880,000. The transaction has been completed on 21 August 2015. The acquisition was made as part of the Group's strategy to seek suitable investment opportunities with a view to increase the Company's shareholders value and broaden its income source alongside with developing its existing business.

Details of the acquisition are set out in the Company's announcement dated 20 July 2015.

33. Contingent Liabilities

At the end of the reporting period, the Group did not have any significant contingent liabilities.

34. Pledge of Assets

Details of the bank borrowings, which are secured by the assets of the Group, are included in notes 23 and 26, respectively, to the financial statements.

35. Operating Lease Arrangements

As lessee

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging for 1 to 5 years.

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 ***RMB'000***	2014 *RMB'000*
Within one year	**558**	721
In the second to fifth years, inclusive	**637**	290
	1,195	1,011

36. Commitments

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	2015 ***RMB'000***	2014 *RMB'000*
Contracted, but not provided for:		
Buildings	**109,491**	108,599
Plant and machinery	**12,046**	10,811
	121,537	119,410

37. Related Party Disclosures

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

	Notes	2015 RMB'000	2014 RMB'000
Company controlled by a director of the Company:			
Continuing connected transactions:			
Sales of products	*(i)*	**2,356**	6,314
Purchases of cattle hides	*(ii)*	**6,942**	–
Connected transaction:			
Acquisition of an available-for-sale investment	*(iii)*	**31,100**	–
Companies controlled by spouse of a director of the Company:			
Continuing connected transactions:			
Purchases of packing materials	*(ii)*	**23,577**	29,514
Spouse of a director of the Company:			
Connected transaction:			
Acquisition of Sanjian Pharmaceutical	*(iv)*	**4,810**	–

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.

(iii) On 6 August 2015, the Group entered into a sale and purchase agreement ("the Ferguson Agreement") with an independent third party, Nanning Zhe Yuan Tang Business Limited ("Nanning Zhe Yuan"), pursuant to which Nanning Zhe Yuan agreed to sell and the Group agreed to purchase a 15% equity interest in Ferguson (Wuhan) Biotechnologies Limited ("Ferguson") at a cash consideration of RMB31.1 million. On the same date of the Ferguson Agreement, Gobitech Limited, an independent third party and 85% equity shareholder of Ferguson, entered into two separate equity transfer agreements with Guangxi Guan Yu Property Limited ("Guangxi Guan Yu") and Guangxi Shenguan Investment Limited ("Guangxi Investment"), companies controlled by certain directors of the Company, to transfer as to 20% and 45% of its equity interests to Guangxi Guan Yu and Guangxi Shenguan, respectively. Upon completion of the acquisition on 31 August 2015, the acquired 15% equity interest in Ferguson was accounted for an available-for-sale investment as set out in note 17 to the financial statements.

Details of the acquisition are set out in the Company's announcement dated 6 August 2015.

(iv) On 26 January 2015, the Group entered into an equity transfer agreement with 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 Sanjian Pharmaceutical at a cash consideration of RMB4,810,000. Details of the transaction are set out in note 32(i).

(b) Balances with related parties

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

37. Related Party Disclosures (Continued)

(c) Compensation of key management personnel

	2015 RMB'000	2014 RMB'000
Fees	316	300
Salaries, allowances and benefits in kind	4,187	3,628
Discretionary performance-related bonuses	4,502	9,624
Retirement benefit contributions	26	23
Equity-settled share option expense	–	207
Total compensation paid to key management personnel	9,031	13,782

Further details of directors' emoluments are included in note 8 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.

38. Financial Instruments by Category

All financial assets and liabilities of the Group as at 31 December 2015 and 2014, except for an available-for-sale investment which is stated at cost less impairment loss and the put option which is a financial asset at fair value through profit or loss, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

39. Transfer of Financial Assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB51,936,000 to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB2,978,000 as at 31 December 2015.

Transferred financial assets that are derecognised in their entirety

At 31 December 2015, certain subsidiaries of the Group, endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with carrying amounts in aggregate of RMB48,958,000. The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2015, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

40. 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, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank borrowings and largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance controller reports directly to the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instrument:

Asset measured at fair value:

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial asset at fair value through profit or loss	–	–	**353**	**353**

The Group did not have any financial assets measured at fair value as at 31 December 2014.

The Group did not have any financial liabilities measured at fair value as at 31 December 2015 and 2014.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

41. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise 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 and bills 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 2015, it was estimated that if interest rates at those dates had been 100 (2014: 100) basis points higher/lower, with all other variables held constant, there would have been a decrease/increase of RMB3,225,000 (2014: RMB2,113,000) in the Group's profit before tax and a decrease/increase of RMB3,225,000 (2014: RMB2,113,000) in the Group's equity for the year ended 31 December 2015 (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 2015. The fluctuation of the exchange rates of these currencies against RMB will affect the Group's results of operations.

Substantially 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.

41. 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 RMB4,174,000 (2014: RMB12,496,000) and decreased/increased the Group's equity by RMB13,751,000 (2014: RMB21,945,000) during the year ended 31 December 2015.

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 21 to the financial statements.

41. 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:

	2015			
	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	549,242	–	–	549,242
Trade payables	42,726	–	–	42,726
Financial liabilities included in other payables and accruals	104,726	–	–	104,726
	696,694	–	–	696,694

	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
Financial liabilities included in other payables and accruals	97,622	–	–	97,622
	985,392	–	–	985,392

41. Financial Risk Management Objectives and Policies (Continued)

Capital management

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio and a debt-to-equity ratio. The gearing ratio is calculated as net debt divided by adjusted capital. Net debt/cash 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. Adjusted capital comprises all components of equity attributable to owners of the Company. 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 at a reasonable level. The gearing ratios and debt-to-equity ratio as at the ends of the reporting periods were as follows:

	2015 ***RMB'000***	2014 *RMB'000*
Interest-bearing bank borrowings	**544,545**	783,144
Less: Cash and cash equivalents	**(210,784)**	(399,585)
Less: Pledged deposits	**(354,727)**	(546,044)
Net cash	**(20,966)**	(162,485)
Adjusted capital	**2,780,749**	2,635,605
Gearing ratio	**N/A**	N/A
Total equity	**2,870,495**	2,635,605
Debt-to-equity ratio	**19.0%**	29.7%

42. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	172,289	393,981
CURRENT ASSETS		
Amounts due from subsidiaries	565,354	323,451
Prepayments, deposits and other receivables	80	104
Bank balances	24,206	29,550
Total current assets	589,640	353,105
CURRENT LIABILITIES		
Amounts due to subsidiaries	37,427	34,826
Other payables	419	397
Total current liabilities	37,846	35,223
NET CURRENT ASSETS	551,794	317,882
Net assets	724,083	711,863
EQUITY		
Issued capital	28,135	28,425
Reserves *(note)*	695,948	683,438
Total equity	724,083	711,863

42. Statement of Financial Position of the Company (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Treasury share RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 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 and 1 January 2015	635,828*	(20,403)*	172,535	(152,829)	5,444	42,863*	683,438
Profit for the year	–	–	–	–	–	108,876	108,876
Exchange realignment	–	–	–	41,644	–	–	41,644
Total comprehensive income for the year	–	–	–	41,644	–	108,876	150,520
Share repurchase	–	(29,770)	–	–	–	–	(29,770)
Cancellation of shares repurchased	(43,732)	44,033	–	–	–	–	301
Share option exercised	3,210	–	–	–	(897)	–	2,313
Transfer of share option reserve upon expiry of share option	–	–	–	–	(4,547)	–	(4,547)
Final 2014 dividend	(106,307)	–	–	–	–	–	(106,307)
At 31 December 2015	488,999*	(6,140)*	172,535	(111,185)	–	151,739*	695,948

* *These reserve accounts comprise the Company's reserves available for distribution amounting to RMB634,598,000 (2014: RMB658,288,000).*

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based 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.

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 March 2016.

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 2011, 2012, 2013, 2014 and 2015 and the consolidated assets, liabilities and non-controlling interests of the Group as at 31 December 2011, 2012, 2013, 2014 and 2015 are extracted from the published audited financial statements.

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

	2015 ***RMB'000***	2014 *RMB'000*	2013 *RMB'000*	2012 *RMB'000*	2011 *RMB'000*
Year ended 31 December					
RESULTS					
REVENUE	**1,054,565**	1,403,008	1,654,492	1,648,477	1,501,985
Cost of sales	**(588,713)**	(633,214)	(687,010)	(689,255)	(571,709)
Gross profit	**465,852**	769,794	967,482	959,222	930,276
Other income and gains, net	**41,016**	38,359	72,597	70,326	62,578
Selling and distribution expenses	**(11,660)**	(17,743)	(22,039)	(20,385)	(22,533)
Administrative expenses	**(140,372)**	(99,663)	(77,860)	(81,201)	(101,911)
Finance costs, net	**(17,700)**	(14,610)	(6,360)	2,239	(289)
PROFIT BEFORE TAX	**337,136**	676,137	933,820	930,201	868,121
Income tax expense	**(51,558)**	(128,661)	(162,543)	(182,018)	(163,490)
PROFIT FOR THE YEAR	**285,578**	547,476	771,277	748,183	704,631
Profit attributable to:					
Owners of the Company	**291,390**	547,476	771,277	748,183	689,319
Non-controlling interests	**(5,812)**	–	–	–	15,312
	285,578	547,476	771,277	748,183	704,631
As at 31 December					
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**3,694,004**	3,698,944	3,185,057	2,882,621	2,192,395
TOTAL LIABILITIES	**(823,509)**	(1,063,339)	(540,999)	(537,838)	(286,923)
NON-CONTROLLING INTERESTS	**(89,746)**	–	–	–	–
	2,780,749	2,635,605	2,644,058	2,344,783	1,905,472