SHENGUAN HOLDINGS (GROUP) LIMITED

神冠控股(集團)有限公司

(incorporated in the Cayman Islands with limited liability)

(stock code: 00829)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

RESULTS HIGHLIGHTS

- Achieved revenue of RMB794.4 million, increased by 75.0% year over year
- Achieved profit attributable to owners of the Company of RMB326.1 million, increased by 88.6% year over year
- Profit attributable to owners of the Company upsurged 16.9% from the profit forecasts set out in the prospectus of the Company
- Recommended dividend of HK4.6 cents per share
- Total number of production lines increased from 56 at the end of 2008 to 116 at the end of 2009
- Proceeds were applied in accordance with the prospectus of the Company

The board (the "Board") of directors (the "Directors") of Shenguan Holdings (Group) Limited (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009 (the "Year" or the "Period"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. The 2009 consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 22 March 2010.

During the Period, the demand for the products of the Group maintained healthy growth with breakthrough results. The revenue from the sales of the collagen sausage casings soared 75.0% to RMB794.4 million as compared to the corresponding period in 2008. During the Period, our gross profit margins increased from 55.1% to 61.1%. The profit attributable to owners of the Company was RMB326.1 million throughout the year, representing a growth of 88.6%. The basic earnings per share attributable to owners of the Company was RMB25 cents. The Board is pleased to propose a final dividend of HK4.6 cents per share.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

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

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**470,477**	207,898
Investment property		**–**	133
Prepaid land lease payments		**31,786**	27,479
Patent		**2,003**	2,861
Deferred tax assets		**13,354**	2,908
Long term prepayments		**43,520**	30,019
Total non-current assets		**561,140**	271,298
CURRENT ASSETS			
Inventories		**46,862**	26,817
Trade receivables	*10*	**77,996**	27,392
Prepayments, deposits and other receivables		**37,765**	11,865
Tax recoverable		**1,168**	–
Cash and cash equivalents		**1,027,862**	128,535
Total current assets		**1,191,653**	194,609
CURRENT LIABILITIES			
Trade payables	*11*	**24,227**	17,385
Other payables and accruals		**105,578**	50,977
Interest-bearing bank borrowings		**–**	48,000
Tax payable		**19,808**	2,812
Total current liabilities		**149,613**	119,174
NET CURRENT ASSETS		**1,042,040**	75,435
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,603,180**	346,733
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**74,900**	53,000
Deferred income		**11,171**	3,038
Deferred tax liabilities		**1,091**	–
Total non-current liabilities		**87,162**	56,038
Net assets		**1,516,018**	290,695

	Notes	**2009**	2008
		RMB'000	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**14,624**	63,125
Reserves		**1,482,017**	186,955
		1,496,641	250,080
Minority interests		**19,377**	40,615
Total equity		**1,516,018**	290,695

Notes to Financial Statements

31 December 2009

1. Basis of Presentation

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

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

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

2. Changes in Accounting Policy and Disclosures

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

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

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

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

(a) HKFRS 8 *Operating Segments*

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

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

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

3. Segment Information

The Group is engaged in the principal business of manufacture and sale of edible collagen sausage casing products. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the collagen casing segment that produces Western-style collagen sausage casing and Chinese-style collagen sausage casing.

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

Information about products

The revenue of the two major products are as below:

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

Information about geographical areas

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

Information about major customers

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

4. Revenue, Other Income and Gains

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

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

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

5. Finance Costs

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

6. Profit Before Tax

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

	2009	2008
	RMB'000	*RMB'000*
Depreciation	**19,998**	12,169
Amortisation of patent	**858**	859
Amortisation of prepaid land lease payments	**642**	379

7. Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2009.

Wuzhou Shenguan Protein Casing Co., Ltd. ("Wuzhou Shenguan") and Wuzhou Shenguan Biological Industrial Development Limited, being the Company's subsidiaries, are located in Wuzhou, Guangxi in the Western Region of China and are subject to the region's preferential enterprise income tax ("EIT") rate of 15% as set out in the Circular on Issues Concerning Preferential Tax Policies for the Development of Western Regions (Cai Shui [2001] No. 202).

In accordance with the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (Zhuxiling [1991] No. 45 Article 8), foreign invested enterprises engaged in manufacturing are exempted from EIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and are entitled to a 50% tax exemption for the subsequent three years. Since Wuzhou Shenguan is engaged in the manufacture of protein products, it is entitled to the EIT holiday.

Pursuant to the Circular on the Implementation of Transitional Preferential Enterprise Income Tax Policies (Guo Fa [2007] No. 39), enterprises entitled to EIT holiday of "two-year exemption and three-year half deduction" shall continue to enjoy the preferential tax treatment following the implementation of the new Law of the People's Republic of China on Enterprise Income Tax which came into force on 1 January 2008. The preferential tax policies for the development of western regions which allow a preferential EIT rate of 15% shall continue to apply. Wuzhou Shenguan had successfully obtained approval in 2008 on grandfathering its preferential tax treatment from the State Tax Bureau of Wanxiu District, Wuzhou City.

Wuzhou Shenguan's first profit-making year was the year ended 31 December 2005 which was also the first year of its tax holiday. Accordingly, it was exempted from EIT for the two years ended 31 December 2005 and 2006 and subject to EIT at a rate of 7.5% for the three years ended 31 December 2007, 2008 and 2009.

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

8. Dividends

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

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

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

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

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

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

10. Trade Receivables

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

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group has provided impairment loss on trade receivables based on past experience of collecting payments. Trade receivables are non-interest-bearing.

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

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

Due from a related company:

	2009	2008
	RMB'000	*RMB'000*
Exceltech Enterprise ("Exceltech")	**638**	595

The above related company is controlled by Mr. Low Jee Keong, a director of the Company. The amount due from Exceltech is unsecured, non-interest-bearing and has a repayment term of 60 days, which is on term similar to that offered to other major customers.

11. Trade Payables

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

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

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

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

12. Shares

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

The issued capital of the Group as at 31 December 2008 represented the aggregate amount of paid-in capital of the companies comprising the Group attributable to owners of the Company at the date, after elimination of investments in subsidiaries. The issued capital of the Group as at 31 December 2009 represented the issued capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

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

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

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

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

Product Mix

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

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

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

Product Price

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

Supply of Raw Materials

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

Production Scale

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

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

Technological Research and Development

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

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

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

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

Quality Control

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

Customer Relationship

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

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

Marketing

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

Awards

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

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

Financial Analysis

Revenue

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

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

Income tax expenses

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

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

Profit attributable to minority interests

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

Profit attributable to owners of the Company

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

Liquidity and Capital Resources

Cash and bank borrowings

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

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

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

Cash flow

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

Capital expenditure

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

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

Pledge of Assets

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

Use of proceeds

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

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

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

Contingent Liabilities

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

Human Resources

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

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

Prospects

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

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

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

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

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

OTHER INFORMATION

Dividends

The Board recommended the payment of a final dividend of HK4.6 cents per ordinary share in respect of the Year to shareholders on the register of members of the Company on 7 May 2010. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 18 May 2010.

Closure of register of members

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

Purchase, redemption or sale of listed securities of the Company

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

Acquisitions, Disposals and Significant Investment

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

On 17 December 2009, Wuzhou Shenguan entered into a sale and purchase agreement with 廣西梧州三箭製藥有限公司 (Guangxi Wuzhou Sanjian Medicine Co. Ltd.) ("Wuzhou Sanjian"), a connected person of the Company, pursuant to which

Wuzhou Shenguan agreed to acquire from Wuzhou Sanjian the land use rights in respect of a parcel of land located at No. 32, Fu Dian Shang Chung, Xi Jiang 4th Road, Wuzhou, the PRC (梧州市西江四路扶典上沖32號) and certain buildings and ancillary structures erected thereon for a consideration of RMB3,003,600.

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

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions carried out by the directors. The Company had made specific enquiry to all directors and all directors confirmed that they had complied with the required standard set out in the Model Code throughout the Period.

Code on Corporate Governance Practices

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

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

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

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

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

Audit committee

The audit committee of the Board had reviewed the consolidated annual results of the Company for the year ended 31 December 2009 and considered that the Company had complied with all applicable laws, accounting standards and requirements, and had made adequate disclosure.

By Order of the Board
Shenguan Holdings (Group) Limited
Zhou Yaxian
Chairman

Hong Kong, 22 March 2010

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Ms. Cai Yueqing, Mr. Shi Guicheng and Mr. Ru Xiquan; the non-executive Director is Mr. Low Jee Keong; and the independent non-executive Directors are Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.