SHEN GUAN

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 2010

RESULTS HIGHLIGHTS

- Achieved revenue of RMB1,152.7 million, increased by 45.1% year over year
- Achieved profit attributable to owners of the Company of RMB513.5 million, increased by 57.5% year over year
- Recommended final dividend of HK8.0 cents per share and special dividend of HK2.0 cents per share
- Total number of production lines increased from 116 at the end of 2009 to 170 at the end of 2010, four of them were originally scheduled to be installed in 2011
- Proceeds were applied in accordance with the prospectus of the Company dated 30 September 2009

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, "Shenguan" or the "Group") for the year ended 31 December 2010 (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 2010 consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 21 March 2011.

During the Year, the demand for the products of the Group maintained healthy growth with breakthroughs. The revenue from the sales of the collagen sausage casings soared 45.1% to RMB1,152.7 million as compared to 2009. During the Year, profitability of the Group has improved. The profit attributable to owners of the Company was RMB513.5 million throughout the Year, representing a growth of 57.5% over 2009. The basic earnings per share attributable to owners of the Comapny was RMB31 cents. The Board is pleased to propose a final dividend of HK8.0 cents per share and a special dividend of HK2.0 cents per share. For reference purpose, the closing exchange rate for Renminbi to Hong Kong Dollars as announced by the People's Bank of China at the date of this announcement is RMB0.8415 to HK$1.00. Accordingly, the aggregate amount of final and special dividends per share equivalent to RMB8.4150 cents, together with the interim dividend of HK6.0 cents per share (equivalent to RMB5.2468 cents as stated in the interim results announcement dated 30 August 2010), represents a dividend payout ratio of approximately 44.2%.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	4	**1,152,689**	794,418
Cost of sales		**(454,616)**	(308,641)
Gross profit		**698,073**	485,777
Other income and gains	4	**49,118**	3,548
Selling and distribution costs		**(14,595)**	(11,191)
Administrative expenses		**(68,026)**	(79,587)
Finance costs, net	5	**252**	(11,448)
PROFIT BEFORE TAX	6	**664,822**	387,099
Income tax expense	7	**(134,520)**	(35,998)
PROFIT FOR THE YEAR		**530,302**	351,101
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations		**(26,762)**	(111)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(26,762)**	(111)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**503,540**	350,990
Profit attributable to:			
Owners of the Company		**513,458**	326,061
Non-controlling interests		**16,844**	25,040
		530,302	351,101
Total comprehensive income attributable to:			
Owners of the Company		**486,696**	325,950
Non-controlling interests		**16,844**	25,040
		503,540	350,990
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY	9		
Basic (RMB cents per share)		**31**	25
Diluted (RMB cents per share)		**31**	25

Consolidated Statement of Financial Position

31 December 2010

	Notes	**2010**	2009
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**722,421**	470,477
Prepaid land lease payments		**107,732**	31,786
Patent		**1,144**	2,003
Available-for-sale investments		**200**	–
Deferred tax assets		**8,790**	13,354
Long term prepayments		**16,343**	43,520
Total non-current assets		**856,630**	561,140
CURRENT ASSETS			
Inventories		**118,849**	46,862
Trade and bills receivables	*10*	**137,210**	77,996
Prepayments, deposits and other receivables		**97,364**	37,765
Tax recoverable		**–**	1,168
Held-to-maturity investments		**201,965**	–
Cash and cash equivalents		**787,736**	1,027,862
Total current assets		**1,343,124**	1,191,653
CURRENT LIABILITIES			
Trade payables	*11*	**26,357**	24,227
Other payables and accruals		**119,631**	105,578
Tax payable		**31,800**	19,808
Deferred income		**3,305**	–
Total current liabilities		**181,093**	149,613
NET CURRENT ASSETS		**1,162,031**	1,042,040
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,018,661**	1,603,180
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**140,000**	74,900
Deferred income		**14,061**	11,171
Deferred tax liabilities		**–**	1,091
Total non-current liabilities		**154,061**	87,162
Net assets		**1,864,600**	1,516,018

	Note	**2010**	2009
		RMB'000	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**14,633**	14,624
Reserves		**1,823,046**	1,482,017
		1,837,679	1,496,641
Non-controlling interests		**26,921**	19,377
Total equity		**1,864,600**	1,516,018

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 on 13 October 2009.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years ended 31 December 2010 and 2009 or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

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

2. Changes in Accounting Policy and Disclosures

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

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

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

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

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

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

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

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

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:

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

Information about geographical areas

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

Information about major customers

For the year ended 31 December 2010, revenue generated from a single (2009: one) customer of the Group amounting to RMB467,377,000 (2009: RMB304,720,000) has individually accounted for over 10% of the Group's total revenue.

4. Revenue, Other Income and Gains

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

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

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

5. Finance Costs

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

6. Profit Before Tax

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

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories sold	**168,288**	117,796
Depreciation	**31,808**	19,998
Amortisation of a patent	**859**	858
Amortisation of land lease payments	**1,216**	642

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 2010.

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

In accordance with the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (Zhuxiling 1991 No. 45 Article 8), foreign invested enterprises engaging in manufacturing are exempted from CIT for two years commencing from their first year with assessable profits after deducting tax losses brought forward, and are entitled to a 50% tax exemption for the subsequent three years.

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

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

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

8. Dividends

	2010	2009
	RMB'000	*RMB'000*
Dividends declared by the Company's subsidiaries to their then shareholders	**–**	329,721
Interim dividend		
– HK6.0 cents (2009: Nil) per ordinary share	**87,097**	–
Final dividend proposed subsequent to the reporting period		
– HK8.0 cents (2009: HK4.6 cents) per ordinary share	**111,823**	67,295
Special dividend		
– HK2.0 cents (2009: Nil) per ordinary share	**27,955**	–
	226,875	397,016

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

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

The calculation of diluted earnings per share amount for the year ended 31 December 2010 is based on the profit for the year attributable to ordinary owners of the Company of RMB513,458,000 (2009: RMB326,061,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2010, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 2,626,000 (2009: 236,000) assumed to have been issued at no consideration on the deemed exercise of all potentially dilutive ordinary shares into ordinary shares.

10. Trade and Bills Receivables

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

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for major customers. The Group 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:

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

Due from a related company:

	2010	2009
	RMB'000	*RMB'000*
Exceltech Enterprise ("Exceltech")	**665**	638

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

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:

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

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

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

12. Shares

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

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

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

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

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

Product Mix

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

During the Year, western-style collagen sausage casing products remained a major source of revenue of the Group. The sales of western-style collagen sausage casing products reached RMB1,080.2 million for the year ended 31 December 2010 (2009: RMB722.9 million), representing a growth of 49.4% over the previous year and accounted for 93.7% of the total revenue of the Group (2009: 91.0%). The sales of Chinese-style collagen sausage casings was approximately RMB72.5 million (2009: RMB71.5 million), increasing moderately by 1.3% over the previous year, and represented approximately 6.3% of the total revenue (2009: 9.0%).

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

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

Mainland China is the major market of the Group's products with over 96% of the sausage casings manufactured by the Group are sold to the sausage manufacturers in the PRC, while the remaining products are mainly exported to South America, Southeast Asia, the United States and Europe.

Supply of Raw Materials

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

Production Capacity

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

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

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

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

Technological Research and Development

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

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

Quality Control

In order to produce high quality products to its customers, Shenguan undertakes strict quality control over every single production process. During the Period, the Group had passed the ISO9001: 2000 Quality Management System and HACCP Standards annual review for its quality control system, and has obtained FDA registration for the export of products to the United States. In addition, all of its products have complied with the national standards (GB14967-94) and sausage casing manufacturing industry standards (SB/T10373-2004). All these recognitions enable the Group to become a trustworthy product supplier to its customers.

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

Customer Relationship

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

During the Year, the Group continued to provide a range of high quality sausage casing products to a number of renowned food product suppliers in the PRC, namely Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Beijing Shunxiu Agriculture Co., Ltd. (北京顺鑫農業股份有限公司), China Agri-Industries Holdings Limited (中國糧油控股有限公司), China Yurun Food Group Limited (中國雨潤食品集團有限公司), People's Food Holdings Limited (大眾食品控股有限公司), Fuijian Sunner Development Co., Ltd. (福建聖農發展股份有限公司), Shangdong Delisi Food Co., Ltd. (山東得利斯食品股份有限公司), China Kangda Food Co., Ltd. (中國康太食品股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠) and Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司), respectively.

Energy saving

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

Financial Analysis

Revenue

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

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

Administrative expenses decreased by 14.5% from RMB79.6 million in 2009 to RMB68.0 million in 2010. The decrease in administrative expenses was mainly due to the fact that the legal and professional fees incurred during 2009 of RMB23.2 million for the preparation of the Company's listing in October 2009, did not re-occur during the Year. However, part of such decrease was offset by the increase in staff salary and expense in benefits, which was principally a result of (i) an increase in headcount of administrative staff; and (ii) the payments of performance-based bonuses to some management personnel which were based on the profitability of the Group's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) ("Wuzhou Shenguan") and its subsidiaries.

Finance costs

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

Income tax expenses

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

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

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests decreased by 32.7% from RMB25.0 million in 2009 to RMB16.8 million in 2010. Notwithstanding an increase in profit after tax, the decrease was due to a decrease in percentage of beneficial interests of non-controlling shareholders in Wuzhou Shenguan.

Profit attributable to owners of the Company

As a result of the facts discussed above, profit attributable to owners of the Company increased by 57.5% from RMB326.1 million in 2009 to RMB513.5 million in 2010. The Group's net profit margin attributable to owners of the Company increased from 41.0% in 2009 to 44.5% in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank borrowings

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

As at 31 December 2010, the cash and cash equivalents amounted to RMB787.7 million, representing a decrease of RMB240.1 million from the end of 2009. Among the cash and bank deposits balance, 97.9% were denominated in Renminbi and the remaining 2.1% was denominated in Hong Kong dollars and U.S. dollars.

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

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

Cash flows

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

Exchange risk exposure

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

Capital expenditure

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

For 2011, the Company has budgeted to spend around RMB400 million for capital expenditure, including mainly the capital expenditure to increase the Group's production capacity to cope with the increasing demand of its products and the upgrading of production technology.

Pledge of assets

As at 31 December 2010, none of the Group's assets was pledged.

Use of proceeds

On 13 October 2009, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Net proceeds received by the Company from the initial public offering were approximately RMB1,190.6 million.

As at 31 December 2010, approximately RMB14.1 million of the proceeds were used for the repayment of the outstanding amount due to shareholders, approximately RMB133.3 million of the proceeds were used for the repayment of bank borrowings, and approximately RMB393.4 million of the proceeds were used for the development and expansion of the production facilities in Wuzhou. The proceeds were applied in accordance with the proposed applications set forth in the prospectus of the Company dated 30 September 2009 (the "Prospectus").

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

Contingent liabilities

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

Acquisitions, Disposals and Significant Investment

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

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

Human resources

As at 31 December 2010, the Group had 3,695 employees with a total remuneration of RMB111.3 million paid during the Year. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, the Group 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 in 2009. The employee share option scheme has been put in place to incentivize employees, and to encourage them to work towards enhancing the value and promoting the long-term growth of the Group.

Prospects

Looking ahead, the Group remains strongly optimistic towards the vast potentials of the collagen sausage casing market in the PRC. Increasing income and changing lifestyle of the Chinese citizens will continue to drive the robust demand for processed meat products and substitution for natural sausage casings. To capture the growing business opportunities, the Group will endeavor to sustain its leading market position in the collagen sausage casings industry with the following key development plans:

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

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

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

OTHER INFORMATION

Dividends

The Board recommended the payment of a final dividend of HK8.0 cents per ordinary share and a special dividend of HK2.0 cents per ordinary share in respect of the Year to the shareholders whose names appear on the register of members of the Company on 17 May 2011. Subject to the approval by the shareholders at the forthcoming annual general meeting, it is expected that the final and special dividends will be paid on or around 27 May 2011.

Closure of register of members

The register of members of the Company will be closed from Thursday, 12 May 2011 to Tuesday, 17 May 2011 (both days inclusive), during such period no transfer of shares will be registered. To ensure the entitlement to the final and special dividends, which will be resolved and voted at the forthcoming annual general meeting of the Company, and be eligible for attending and voting at the forthcoming annual general meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on Wednesday, 11 May 2011.

Purchase, redemption or sale of listed securities of the Company

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

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 Year.

Code on Corporate Governance Practices

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules. During the Year, the Company has complied with the code provisions of the Code, save for the following:

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.

Event after the Period

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

Audit committee

The audit committee of the Board had reviewed the consolidated annual results of the Company for the Year 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, 21 March 2011

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.