**CHINA YURUN FOOD GROUP LIMITED**
**中國雨潤食品集團有限公司** *

*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 1068)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

## SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014 (the "Review Year") together with the comparative figures of the corresponding period in 2013 as follows:

## CONSOLIDATED INCOME STATEMENT
*For the year ended 31 December 2014*

| | *Note* | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|---|
| **Turnover** | *4* | **19,157,889** | 21,440,039 |
| Cost of sales | | **(18,171,316)** | (20,674,384) |
| **Gross profit** | | **986,573** | 765,655 |
| Other net income | *5* | **882,023** | 1,203,571 |
| Distribution expenses | | **(697,482)** | (704,798) |
| Administrative and other operating expenses | | **(1,005,533)** | (1,002,160) |
| **Results from operating activities** | | **165,581** | 262,268 |
| Finance income | | **34,391** | 77,046 |
| Finance costs | | **(267,107)** | (231,313) |
| **Net finance costs** | | **(232,716)** | (154,267) |
| **Share of loss of an associate (net of income tax)** | | **–** | (290) |
| **Share of loss of a joint venture (net of income tax)** | | **(3,310)** | (4,218) |
| **(Loss)/profit before income tax** | *6* | **(70,445)** | 103,493 |
| Income tax credit/(expense) | *7* | **127,386** | (64,059) |
| **Profit for the year** | | **56,941** | 39,434 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **56,774** | 43,592 |
| Non-controlling interests | | **167** | (4,158) |
| **Profit for the year** | | **56,941** | 39,434 |
| **Earnings per share** | | | |
| Basic | *9(a)* | **HK$0.031** | HK$0.024 |
| Diluted | *9(b)* | **HK$0.031** | HK$0.024 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
*For the year ended 31 December 2014*

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Profit for the year** | | **56,941** | 39,434 |
| **Other comprehensive income for the year (after reclassification adjustments)** | *10* | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences for foreign operations | | **(47,907)** | 433,263 |
| Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries | | **(67,947)** | (14,299) |
| | | **(115,854)** | 418,964 |
| **Total comprehensive income for the year** | | **(58,913)** | 458,398 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(58,871)** | 460,827 |
| Non-controlling interests | | **(42)** | (2,429) |
| **Total comprehensive income for the year** | | **(58,913)** | 458,398 |

## CONSOLIDATED BALANCE SHEET
*At 31 December 2014*

| | Note | **2014** *HK$'000* | 2013 *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **16,540,504** | 15,926,126 |
| Investment properties | | **–** | 205,944 |
| Lease prepayments | | **3,606,989** | 3,881,766 |
| Goodwill | | **96,405** | 96,736 |
| Interest in a joint venture | | **14,881** | 18,268 |
| Non-current prepayments | | **305,831** | 424,651 |
| Deferred tax assets | | **20,167** | 28,064 |
| | | **20,584,777** | 20,581,555 |
| **Current assets** | | | |
| Inventories | | **1,390,172** | 1,170,362 |
| Other investment | | **101,407** | – |
| Current portion of lease prepayments | | **82,860** | 87,579 |
| Trade and other receivables | *11* | **3,662,104** | 2,608,302 |
| Income tax recoverable | | **1,581** | 4,365 |
| Pledged deposits | | **232,809** | 11,483 |
| Time deposits | | **6,168** | 33,629 |
| Cash and cash equivalents | | **885,028** | 2,444,694 |
| | | **6,362,129** | 6,360,414 |
| **Current liabilities** | | | |
| Bank loans | | **3,818,771** | 3,415,390 |
| Medium term notes | *13* | **1,645,097** | – |
| Finance lease liabilities | | **549** | 634 |
| Trade and other payables | *12* | **2,706,331** | 2,244,741 |
| Income tax payable | | **12,427** | 11,091 |
| | | **8,183,175** | 5,671,856 |
| **Net current (liabilities)/assets** | | **(1,821,046)** | 688,558 |
| **Total assets less current liabilities** | | **18,763,731** | 21,270,113 |

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Non-current liabilities** | | | |
| Bank loans | | **1,379,154** | 1,977,820 |
| Medium term notes | *13* | **1,266,629** | 2,921,312 |
| Finance lease liabilities | | **146,907** | 181,763 |
| Deferred tax liabilities | | **23,729** | 177,904 |
| | | **2,816,419** | 5,258,799 |
| **NET ASSETS** | | **15,947,312** | 16,011,314 |
| **EQUITY** | | | |
| Share capital | | **182,276** | 182,276 |
| Reserves | | **15,709,968** | 15,767,735 |
| **Total equity attributable to equity holders of the Company** | | **15,892,244** | 15,950,011 |
| **Non-controlling interests** | | **55,068** | 61,303 |
| **TOTAL EQUITY** | | **15,947,312** | 16,011,314 |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**
***For the year ended 31 December 2014***

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Cash generated from operating activities** | **20,554** | 173,582 |
| Finance costs paid | **(471,342)** | (393,716) |
| Income tax paid | **(13,749)** | (75,801) |
| **Net cash used in operating activities** | **(464,537)** | (295,935) |
| **Net cash used in investing activities** | **(668,216)** | (1,121,054) |
| **Net cash (used in)/generated from financing activities** | **(409,006)** | 977,218 |
| **Net decrease in cash and cash equivalents** | **(1,541,759)** | (439,771) |
| **Cash and cash equivalents at 1 January** | **2,444,694** | 2,812,267 |
| **Effect of exchange rate fluctuations on cash held** | **(17,907)** | 72,198 |
| **Cash and cash equivalents at 31 December** | **885,028** | 2,444,694 |

**Notes:**

1. **REVIEW OF ANNUAL RESULTS**

The annual results have been reviewed by the audit committee of the Company.

2. **BASIS OF PREPARATION**

As at 31 December 2014, the Group had net current liabilities of HK$1,821,046,000. Its total borrowings and finance lease liabilities amounted to HK$8,257,107,000, out of which HK$5,464,417,000 is due within 12 months of that date. The Group had operating cash outflow of HK$464,537,000 for the year ended 31 December 2014. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Group have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include but are not limited to the following:

(i) Actively negotiating with a number of commercial banks for renewal and securing new loans or facilities. Subsequent to the balance sheet date, a wholly-owned subsidiary of the Group has obtained approval from National Association of Financial Market Institutional Investors to issue (i) short term financing notes of an aggregate principal amount of up to Renminbi ("RMB") 1.8 billion with a term of 366 days from the date of issuance and (ii) private placement notes of an aggregate principal amount of up to RMB2.5 billion with a term of 3 years from the date of issuance;

(ii) Taking active measures to expedite collections of outstanding receivables; and

(iii) Implementing comprehensive policies to improve profitability.

The directors have reviewed the Group's cash flow projections covering a period of twelve months from the balance sheet date prepared by management. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the balance sheet date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

In addition, on 26 March 2015, the Company received notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board of Directors and a director of certain key operating subsidiaries of the Group, that a Procuratorate has imposed measures on Mr. Zhu such that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). The directors of the Company believe that the Group has been affected by this Incident but that the impact is not significant and the Group is able to continue as a going concern.

## 3. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued a new interpretation and a number of amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to International Accounting Standard ("IAS") 32, *Financial Instruments: Presentation – Offsetting financial assets and financial liabilities*

– Amendments to IAS 36, *Impairment of assets "Recoverable amount disclosures for non-financial assets"*

– International Financial Reporting Interpretations Committee ("IFRIC") 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other new interpretation and amended IFRSs are discussed below:

**Amendments to IAS 32, Financial Instruments: Presentation – Offsetting financial assets and financial liabilities**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

**Amendments to IAS 36, Impairment of assets "Recoverable amount disclosures for non-financial assets"**

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal.

**IFRIC 21, Levies**

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

## 4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the sale value of goods sold to customers, excludes value-added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts and volume rebates.

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM"), the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Chilled and frozen meat : The chilled and frozen meat segment carries on the business of slaughtering, production and sales of chilled and frozen meat.

Processed meat products : The processed meat products segment manufactures and distributes processed meat products.

The Group's CODM reviews the results of the two operating segments regularly. The decisions made regarding resource allocation and performance assessment are mainly based on the segment results.

### (a) Segment results

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below:

| | **Chilled and frozen meat** | | **Processed meat products** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| External revenue | **16,414,673** | 18,507,916 | **2,743,216** | 2,932,123 | **19,157,889** | 21,440,039 |
| Inter-segment revenue | **748,169** | 656,449 | **15,853** | 17,019 | **764,022** | 673,468 |
| Reportable segment revenue | **17,162,842** | 19,164,365 | **2,759,069** | 2,949,142 | **19,921,911** | 22,113,507 |
| Depreciation and amortisation | **(506,001)** | (504,683) | **(98,004)** | (97,693) | **(604,005)** | (602,376) |
| Reversal of/(provision for) impairment losses on trade and other receivables | **5,109** | (1,394) | **21,727** | (26,250) | **26,836** | (27,644) |
| Government subsidies | **83,522** | 630,747 | **330,591** | 72,508 | **414,113** | 703,255 |
| Reportable segment (loss)/profit | **(504,414)** | (166,532) | **360,572** | 56,658 | **(143,842)** | (109,874) |
| Income tax expense | **(5,595)** | (4,460) | **(25,197)** | (59,115) | **(30,792)** | (63,575) |

**(b) Reconciliations of reportable segment revenue and profit**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Total revenue from reportable segments | **19,921,911** | 22,113,507 |
| Elimination of inter-segment revenue | **(764,022)** | (673,468) |
| Consolidated revenue | **19,157,889** | 21,440,039 |
| **Profit** | | |
| Reportable segment loss | **(143,842)** | (109,874) |
| Elimination of inter-segment profits | **601** | (7,329) |
| Reportable segment loss derived from the Group's external customers | **(143,241)** | (117,203) |
| Share of loss of an associate | **–** | (290) |
| Share of loss of a joint venture | **(3,310)** | (4,218) |
| Net finance costs | **(232,716)** | (154,267) |
| Income tax credit/(expense) | **127,386** | (64,059) |
| Unallocated head office and corporate expenses | **(45,847)** | (64,754) |
| Gain on disposal of subsidiaries | **354,669** | 444,225 |
| Consolidated profit for the year | **56,941** | 39,434 |

**(c) Geographical information**

The Group's revenue and profit are derived entirely from the manufacturing and sales of chilled and frozen meat and processed meat products in the People's Republic of China (the "PRC"). Almost all of the Group's non-current assets are located in the PRC.

**(d) Information about major customers**

During the years ended 31 December 2014 and 2013, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

## 5. OTHER NET INCOME

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Government subsidies | **415,966** | 710,438 |
| Gain on disposal of subsidiaries | **354,669** | 444,225 |
| Rental income | **42,727** | 19,377 |
| Sales of scrap | **773** | 2,638 |
| Sundry income | **67,888** | 26,893 |
| | **882,023** | 1,203,571 |

In December 2014, the Group disposed of its entire equity interest of a wholly owned subsidiary in chilled and frozen meat segment to Nanjing Runlong Business Investment Management Limited* 南京潤隆商業投資管理有限公司, which is indirectly owned as to 29% by Mr. Zhu, the beneficial shareholder of the Company, and directly owned as to 71% by an independent third party, at a total cash consideration of HK$682,686,000. A gain on disposal of subsidiary amounting to HK$354,669,000 was recognised in profit or loss during the year ended 31 December 2014.

In 2013, the Group disposed of its entire equity interest in its two wholly owned subsidiaries in chilled and frozen meat segment at a total cash consideration of HK$606,787,000. A gain on disposal of subsidiaries amounting to HK$444,225,000 was recognised in profit or loss during the year ended 31 December 2013.

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

## 6. (LOSS)/PROFIT BEFORE INCOME TAX

***(Loss)/profit before income tax is arrived at after charging/(crediting):***

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories | **18,171,316** | 20,674,384 |
| Depreciation | **532,748** | 533,192 |
| (Gain)/loss on disposal of property, plant and equipment | **(10,998)** | 1,732 |
| Loss on disposal of lease prepayment | **1,627** | – |
| Amortisation of lease prepayments | **87,127** | 85,099 |
| Interest on borrowings, net of capitalised interest expense | **260,374** | 229,210 |
| Interest income from bank deposits | **(13,077)** | (23,114) |
| Investment income from available-for-sale financial assets | **(21,314)** | (23,379) |

## 7. INCOME TAX (CREDIT)/EXPENSE

***Income tax (credit)/expense in the consolidated income statement represents:***

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax expense** | | |
| Current year | **14,562** | 66,645 |
| Under/(over)-provision in respect of prior years | **3,516** | (121) |
| | **18,078** | 66,524 |
| **Deferred tax credit** | | |
| Origination and reversal of temporary differences | **(145,464)** | (2,465) |
| Income tax (credit)/expense in the consolidated income statement | **(127,386)** | 64,059 |

(a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in Bermuda and the BVI.

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2014 and 2013.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the years ended 31 December 2014 and 2013, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the years ended 31 December 2014 and 2013.

(d) Under the PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement between the PRC and Hong Kong, the investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

    The Company's directors reviewed the dividend policy of the Group in 2014. To retain funding for operations and future development, it was resolved that the Group's PRC subsidiaries will not distribute dividend to the offshore holding companies in the foreseeable future. Accordingly, a reversal of deferred tax liability of HK$158,839,000 in respect of profits from the PRC subsidiaries was recognised during the year ended 31 December 2014.

(e) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered as a PRC resident enterprise and subject to PRC corporate income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC corporate income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

## 8. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2014 (2013: HK$Nil).

## 9. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the profit attributable to equity holders of the Company for the year of HK$56,774,000 (2013: HK$43,592,000) and the weighted average number of 1,822,756,000 (2013: 1,822,756,000) shares in issue during the year.

### (b) Diluted earnings per share

Diluted earnings per share equals to basic earnings per share for the year ended 31 December 2014 and 2013 because the potential ordinary shares outstanding were anti-dilutive.

## 10. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2014 and 2013.

## 11. TRADE AND OTHER RECEIVABLES

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **772,992** | 723,600 |
| Bills receivable | **16,045** | 26,904 |
| Value-added tax recoverable | **1,863,210** | 1,606,379 |
| Deposits and prepayments | **96,851** | 155,323 |
| Receivable arising from the disposal of a subsidiary | **622,284** | – |
| Others | **290,722** | 96,096 |
| | **3,662,104** | 2,608,302 |

All of the trade and other receivables are expected to be recovered within one year.

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) of the Group based on invoice date is analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **365,499** | 433,858 |
| 31 days to 90 days | **167,953** | 137,238 |
| 91 days to 180 days | **122,568** | 146,152 |
| Over 180 days | **116,972** | 6,352 |
| | **772,992** | 723,600 |

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Special approval from senior management is required for extension of credit terms.

## 12. TRADE AND OTHER PAYABLES

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **1,082,209** | 931,193 |
| Receipts in advance | **280,486** | 249,161 |
| Deposits from customers | **138,082** | 107,432 |
| Salary and welfare payables | **94,334** | 109,221 |
| Value-added tax payable | **4,393** | 4,145 |
| Payables for acquisitions of property, plant and equipment | **663,537** | 412,118 |
| Other payables and accruals | **443,290** | 431,471 |
| | **2,706,331** | 2,244,741 |

An ageing analysis of trade payables of the Group is analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **865,231** | 707,780 |
| 31 days to 90 days | **116,786** | 129,745 |
| 91 days to 180 days | **26,350** | 30,593 |
| Over 180 days | **73,842** | 63,075 |
| | **1,082,209** | 931,193 |

### 13. MEDIUM TERM NOTES

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Medium term notes | **2,911,726** | 2,921,312 |
| Less: medium term notes due within one year | **(1,645,097)** | – |
| Non-current medium term notes | **1,266,629** | 2,921,312 |

On 10 May 2013, a subsidiary of the Group issued the second tranche of unsecured 3-year medium term notes of RMB1,000,000,000 in the PRC interbank debenture market with an interest rate of 5.27% per annum. The first tranche of unsecured 3-year medium term notes of RMB1,300,000,000 with an interest rate of 5.49% per annum was issued on 17 October 2012.

## EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from the report issued by KPMG, the Company's auditors, on the consolidated financial statements of the Group for the year ended 31 December 2014:

**"Basis for disclaimer of opinion**

***Going concern***

As at 31 December 2014, the Group had net current liabilities of $1,821,046,000. Its total borrowings and finance lease liabilities amounted to $8,257,107,000, out of which $5,464,417,000 is due within 12 months of that date. The Group had operating cash outflow of $464,537,000 for the year ended 31 December 2014. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

On 26 March 2015, the Company received notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board of Directors and a director of certain key operating subsidiaries of the Group, that a Procuratorate has imposed measures on Mr. Zhu such that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). The directors of the Company believe that the Group has been affected by this Incident but that the impact is not significant and the Group is able to continue as a going concern.

In making our assessment of the Group's ability to continue to obtain sufficient financing and continue as a going concern, we are unable to assess the consequential impact of the Incident to the Group. Given these circumstances, there were no practicable audit procedures that we could perform to form an assessment on whether the directors' assessment of its ability to continue as a going concern considers all events and conditions which may be relevant.

***Recoverability of receivable arising from the disposal of a subsidiary***

Included in trade and other receivables as of 31 December 2014 was a balance arising from the disposal of a subsidiary of $622,284,000 receivable from Nanjing Runlong Business Investment Management Limited which is indirectly owned as to 29% by Mr. Zhu due in June 2015. We are unable to assess the impact of the Incident on the recoverability of this receivable as at 31 December 2014. Any impairment loss recognised against this receivable would affect the net assets as at 31 December 2014 and the profit for the year then ended.

**Disclaimer of opinion**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit for the year then ended in accordance with International Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.**"**

## ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Wednesday, 24 June 2015. The notice of the Annual General Meeting will be published and despatched to the shareholders of the Company in due course.

## FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2014.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 June 2015 to Wednesday, 24 June 2015, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Annual General Meeting, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 June 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

During the Review Year, due to the slower economic growth of the PRC, combined with the economic structural change and strict implementation by the local governments of the requirements on anti-wastage in recent years, both the high-end catering industry and consumption of meat had been affected and suppressed. Given the over-supply of hog in general, pork consumption was weak during the Review Year. Under the unfavorable economic and pork market conditions, operation of the industry players was under pressure to certain extent.

However, during the Review Year, the Chinese Government speeded up its effort to promote food safety and to strengthen industry supervision related policies. In June 2014, the Ministry of Agriculture promulgated a notice on reinforcing supervision on hog slaughtering products' quality and safety to establish a long term system to supervise the quality and safety of hog slaughtering products. In July 2014, the bill for amendments to the Food Safety Law was proposed to the Standing Committee of the National People's Congress for consideration, under which, it is proposed to impose severe punishment on delinquent officers and illegal producers, impose supervision on foods purchased through online shopping and standardise the publication of food safety related information, with an aim to establish a stringent food safety supervision system. These measures are favorable to the development of the industry.

The Board believed that, under the favorable environment created by the government's increasing efforts to promote food safety which partially offset the impact of the difficult macro economic environment, the Group will continue to exert its endeavour to further promote its business and achieve stable development.

### Business Review

During the Review Year, the domestic economic growth slowed down, operating cost of enterprise continued to rise and the market became more competitive. The pro-active expansion in production capacity of the Group over past few years resulted in low utilisation rate and pressure on amortisation of fixed costs, which affected the business operation. During the Review Year, the Group actively adopted various prudent measures to reduce its capital expenditure and further expand its network channels. Leveraged on its strengths in distribution network, and by active exploration of new business operation model, product innovation and technology development and product diversification, the Group adjusted its expansion pace and scale. These measures mainly aimed at increasing profits and gradually improving utilisation rate. The management will continue to adopt corresponding measures to strike the balance between overall profitability and utilisation rate in order to procure long term and stable development of the Group.

### *Product Quality and R&D*

During the Review Year, Yurun Food adhered to the philosophy of "you trust because we care" and led the industry development by technical research and development. With the unfailing efforts to pursue stringent product quality, Yurun Food ranked top in terms of market shares of low temperature meat products ("LTMP") and chilled pork in China, and successively topped the market shares of LTMP in the Chinese market for the past consecutive sixteen years in the 22nd Press Conference releasing the Product Sales Statistics of the PRC Market (第二十二屆中國市場商品銷售統計結果新聞發佈會) held in April 2014. The Group will continue to emphasise high product quality, and focus on research and development of products which are well received by the market, so as to further sharpen its competitiveness and maintain the leading industry position.

### *Sales and Distribution*

Chilled pork and LTMP, which are the Group's products with higher added value, remained the key drivers to the overall business development of the Group during the Review Year. In 2014, due to the drop in hog price, sales of chilled pork of the Group was HK$15.165 billion (2013: HK$16.528 billion), representing a decrease of 8.3% over last year, accounting for approximately 76% (2013: 75%) of the total turnover of the Group prior to inter-segment eliminations and approximately 88% (2013: 86%) of the total turnover of the upstream slaughtering segment. Sales of LTMP was HK$2.500 billion (2013: HK$2.633 billion), representing a decrease of 5.1% over last year, accounting for approximately 13% (2013: 12%) of the total turnover of the Group prior to inter-segment eliminations and approximately 91% (2013: 89%) of the total turnover of the downstream processed meat segment.

### Production Facilities and Production Capacity

Adhering to stringent control of investment costs, the Group adjusted its expansion pace according to market change and the business conditions of the Group.

In respect to its upstream slaughtering segment, with the efforts of our management to adjust the expansion pace, only three new plants of the Group commenced production during the Review Year. As of 31 December 2014, the upstream slaughtering capacity, after deducting the capacity of a subsidiary already disposed, was 56.35 million heads per year, representing an increase of only 0.9 million heads as compared with 55.45 million heads at the end of 2013.

During the second half of 2014, the meat processing factory located in Nanjing was started to move to the new factory in Pukou area of Nanjing in stages. As at 31 December 2014, the Group's production capacity of downstream processed meat segment remained unchanged at approximately 312,000 tons per year as compared with that as at 31 December 2013.

## Financial Review

The Group recorded a turnover of HK$19.158 billion in 2014, representing a decrease of 10.6% as compared with HK$21.440 billion of last year due to consistent drop in hog price. The profit attributable to equity holders was HK$57 million in 2014 (2013: HK$44 million), representing an increase of 30.2% from last year. Core results, being profit attributable to equity holders excluding government subsidies, gain on disposal of a subsidiary and net foreign exchange gain/loss of the Group, recorded a loss of HK$709 million (2013: HK$1.142 billion), representing a significant reduction of loss by approximately 37.9% over last year. Diluted earnings per share was HK$0.031, representing an increase of 29.2% from HK$0.024 of last year.

***Turnover***

*Chilled and Frozen Pork*

During the Review Year, the slaughtering volume of the Group increased by approximately 3.8% over that of last year. This was mainly because the Group appropriately made compromise to the growth of the slaughtering volume under its objective to improve profitability.

In 2014, total sales from upstream business (before inter-segment eliminations) decreased by 10.4% to HK$17.163 billion (2013: HK$19.164 billion) as compared with that of last year, of which, sales of chilled pork decreased by 8.3% to HK$15.165 billion (2013: HK$16.528 billion), accounting for approximately 76% (2013: 75%) and approximately 88% (2013: 86%) of the total turnover (before inter-segment eliminations) of the Group and the total turnover of the upstream business of the Group respectively. Sales of frozen pork decreased by 24.2% to HK$1.998 billion (2013: HK$2.636 billion), accounting for approximately 12% (2013: 14%) of the total turnover of the upstream business.

*Processed Meat Products*

During the Review Year, sales of processed meat products (before inter-segment eliminations) of the Group was HK$2.759 billion (2013: HK$2.949 billion), representing a decrease of 6.4% over last year.

Specifically, turnover of LTMP was HK$2.500 billion, representing a decrease of 5.1% as compared with HK$2.633 billion of last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 91% (2013: 89%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$259 million (2013: HK$316 million), accounting for approximately 9% (2013: 11%) of the total turnover of the processed meat segment.

## Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 28.9% from HK$766 million in 2013 to HK$987 million during the Review Year. Overall gross profit margin increased by 1.5 percentage points to 5.1% from 3.6% of last year. During the Review Year, the steady increase in gross profit margin was due to the gradual recovery of business and positive effects of the new measures of the Group, such as optimisation of sales channels.

With respect to the upstream business, gross profit margin of chilled pork and frozen pork were 4.2% and -6.3% respectively (2013: 2.9% and -9.9% respectively). The overall gross profit margin of the upstream segment was 3.0%, representing an increase of 1.9 percentage points from 1.1% of last year.

With respect to downstream processed meat products, gross profit margin of LTMP was 17.2%, representing a decrease of 1.8 percentage points from 19.0% of last year. Gross profit margin of HTMP was 17.6%, representing an increase of 2.2 percentage points over last year. Overall gross profit margin of the downstream segment was 17.2%, representing a decrease of 1.5 percentage points from 18.7% of last year.

## Other Net Income

Other net income mainly included government subsidies, gains from disposal of subsidiaries and cold storage rental income. During the Review Year, other net income of the Group was HK$882 million, representing a decrease of HK$322 million as compared with HK$1.204 billion of last year. The decrease in other net income was mainly because government subsidies income decreased by HK$294 million as compared with last year.

## Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.703 billion (2013: HK$1.707 billion), which was similar to that of last year. Operating expenses represented 8.9% of the Group's turnover, an increase of 0.9 percentage point as compared with 8.0% of last year.

## Operating Profit

Operating profit of the Group during the Review Year was HK$166 million, representing a decrease of 36.9% from HK$262 million of last year.

**Finance Costs**

During the Review Year, net finance costs of the Group were HK$233 million as compared with HK$154 million of last year. Net finance costs increased mainly because of the increase in interest expense on borrowing due to increased average bank and other borrowings during the Review Year. In addition, depreciation of RMB against Hong Kong dollars compared to 2013 resulted in foreign exchange loss of approximately HK$5 million during the Review Year, contrary to the foreign exchange gain of approximately HK$31 million from appreciation of RMB against Hong Kong dollars in same period last year.

**Income Tax**

Income tax for the Review Year with a credit of HK$127 million as compared with an expense of HK$64 million of last year. The tax credit for the Review Year was mainly due to the reversal of deferred tax liabilities in respect of the withholding tax on profits from the PRC subsidiaries.

**Profit Attributable to the Equity Holders of the Company**

Taking into account all of the above factors, profit attributable to the equity holders of the Company significantly increased by 30.2% to HK$57 million in 2014 from HK$44 million in 2013. Net profit margin for the Review Year was 0.3%, similar to that of last year.

**Financial Resources**

As at 31 December 2014, the Group's cash balance together with time deposits and pledged deposits were HK$1.124 billion, approximately 98% (31 December 2013: 95%) of which was denominated in RMB and Hong Kong dollars, representing a decrease of HK$1.366 billion as compared with HK$2.490 billion as at 31 December 2013. They were mainly used in operating activities and payment for construction in progress, repayment of bank loans and interest payment.

As at 31 December 2014, the Group had outstanding bank loans of HK$8.110 billion (including medium term notes, "MTN"), representing a decrease of HK$205 million from HK$8.315 billion as at 31 December 2013, of which, HK$3.819 billion and HK$1.645 billion (31 December 2013: HK$3.415 billion and HK$Nil) were bank loans and MTN respectively which are repayable within one year, bank loans which are due within one year are expected to be renewed upon maturity. All of our borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2013. The fixed rate debt ratio of the Group increased to 65.9% as at 31 December 2014 (31 December 2013: 62.2%). Taking into account the funds used for daily operations and investments in production facilities during the Review Year, the Group was still able to maintain prudent financial management. Having sufficient working capital together with adequate amount of unutilised credit facilities, the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group decreased by 60.0% to HK$700 million during the Review Year as compared with HK$1,752 million of last year.

**Assets and Liabilities**

As at 31 December 2014, the total assets and total liabilities of the Group were HK$26.947 billion (31 December 2013: HK$26.942 billion) and HK$11.000 billion (31 December 2013: HK$10.931 billion) respectively, representing an increase of HK$5 million and HK$69 million as compared with the total assets and liabilities as at 31 December 2013 respectively.

As at 31 December 2014, property, plant and equipment of the Group amounted to HK$16.541 billion (31 December 2013: HK$15.926 billion), representing an increase of HK$614 million as compared with that as at 31 December 2013.

Lease prepayments of the Group as at 31 December 2014 amounted to HK$3.690 billion (31 December 2013: HK$3.969 billion). This represented the purchase cost of land use rights which was amortised on a straight-line basis over the respective periods of the rights.

Non-current prepayments of the Group represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2014, it amounted to HK$306 million (31 December 2013: HK$425 million). These assets have not started to depreciate nor amortise yet.

As at 31 December 2014, the Group had net current liabilities of approximately HK$1.821 billion. Subsequent to the balance sheet date, a wholly-owned subsidiary of Group has obtained approval from National Association of Financial Market Institutional Investors to issue a short term financing notes of an aggregate principal amount of up to RMB1.8 billion with a term of 366 days from the date of issuance and a private placement notes of an aggregate principal amount up to RMB2.5 billion with a term of 3 years from the date of issuance. In addition, the current bank loans which are due within one year are expected to be renewed upon maturity. In view of these, the directors believe the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the balance sheet date.

As at 31 December 2014, equity attributable to equity holders of the Company was HK$15.892 billion in total, representing a decrease of HK$58 million as compared with HK$15.950 billion as at 31 December 2013.

As at 31 December 2014, the gearing ratio (total debt represented by the sum of bank loans, the MTN and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 34.2%, representing a decrease of 0.6 percentage point as compared with 34.8% as at 31 December 2013. As at 31 December 2014, after excluding cash in bank, time deposits and pledged deposits, the net gearing ratio was 29.5% (31 December 2013: 24.6%).

**Charges on Assets**

As at 31 December 2014, certain properties and construction in progress of the Group with a carrying amount of HK$540 million and lease prepayments of the Group with a carrying amount of HK$506 million (31 December 2013: HK$1.019 billion and HK$539 million respectively) were pledged against certain bank loans with a total amount of HK$1.601 billion (31 December 2013: HK$2.110 billion).

As at 31 December 2014, certain secured bank loans of the Group amounted to HK$407 million (31 December 2013: HK$5.85 million) which were secured by pledged deposits and available-for-sale financial asset denominated in RMB amounting to HK$165 million and HK$101 million respectively (31 December 2013: HK$6 million and HK$Nil respectively).

As at 31 December 2014, bills payable were secured by RMB denominated pledged deposit of HK$63 million. As at 31 December 2013, there were no bills payable of the Group.

**Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, Future Plans for Material Investment or Acquisition of Capital Assets**

Having considered the operation and cash flow of the Group, the Board takes a more prudent approach on capital expenditure plan for 2015. The preliminary capital expenditure plan for 2015 as approved by the Board is currently expected to be approximately HK$500 million, which will be mainly used to complete the construction in progress. As at the date of this announcement, the budget and the expenditure plan are yet to be finalised and the Group has not identified any particular target or opportunity at this stage.

In December 2014, the Group disposed of its entire equity interest of a wholly owned subsidiary engaged in the chilled and frozen meat segment to Nanjing Runlong Business Investment Management Limited* 南京潤隆商業投資管理有限公司, which is indirectly owned as to 29% by Mr. Zhu, the substantial shareholder of the Company, and directly owned as to 71% by an independent third party, at a total cash consideration of HK$683 million. A gain on disposal of subsidiary amounting to HK$355 million was recognised in profit or loss during the Review Year.

Save as disclosed herein, the Group did not hold any other substantial investment nor have any substantial acquisition and disposal of subsidiaries or associated companies during the Review Year. As at the date of this announcement, the Group has no plan to make any substantial investment in or acquisition of capital assets.

**Contingent Liabilities**

There were no significant contingent liabilities for the Group as at 31 December 2014.

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

### Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. RMB is the functional currency of operating subsidiaries of the Group in the PRC, and is not freely convertible into foreign currencies. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

### Human Resources

As at 31 December 2014, the Group had approximately 19,000 (31 December 2013: approximately 23,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$911 million, accounting for 4.8% of the turnover (2013: HK$857 million, accounting for 4.0% of the turnover) of the Group.

The Group offered its employees competitive remuneration and other employee benefits, including contributions to social security schemes, such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance-based bonuses and a share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

### Environmental Policies and Performance

As a responsible corporation, the Group is committed to promote environmental protection and makes its best effort to minimise the environmental impact of its existing production and business activities. During the Review Year, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to minimise waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

## CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Review Year except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as Qiao Jun, an independent non-executive director, Wang Kaitian and Li Chenghua, the non-executive directors, and Yu Zhangli, the executive director and Chairman of the Board, were absent from the annual general meeting of the Company held on 20 May 2014 for their overseas or other engagements.

## MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all directors of the Company in the securities of the Company. The Company, having made specific enquiry of all directors of the Company, confirms that the directors have complied with the required standards set out in the Model Code throughout the Review Year.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the annual results for the Review Year.

## PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and of the Company (www.yurun.com.hk). The Company's annual report for the year ended 31 December 2014 containing all the financial and other related information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange in due course.

## INSIDE INFORMATION

Reference is made to the announcement of the Company dated 30 March 2015 relating to the imposition of measures by Procuratorate on Mr. Zhu Yicai to stay at a designated residence in China since 23 March 2015 (the "Measures").

The Company will continue to assess the impact of the Measures on the Company and will make further announcement if there is any further information and clarification regarding the Measures.

## SUSPENSION OF TRADING

Trading in the shares of the Company has been suspended with effect from 9:00 a.m. on 27 March 2015 and will remain suspended until publication of further announcement(s).

By Order of the Board
**Yu Zhangli**
*Chairman*

Hong Kong, 31 March 2015

*As at the date of this announcement, the executive directors of the Company are Yu Zhangli, Li Shibao, Ge Yuqi and Sun Tiexin; the independent non-executive directors are Gao Hui, Chen Jianguo and Li Qing.*

* *For identification purposes only*