



# Chairman's Statement



**Mr. Zhu Yicai**  
Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or "Company"), and its subsidiaries (collectively referred to as the "Group"), I am pleased to present to you the annual results of Yurun Food for the year ended 31 December 2005 ("Review Period").

## Business Review

2005 marked a major milestone for Yurun Food, in its successful listing on the Main Board of The Stock Exchange of Hong Kong Limited last October. The listing has made it possible to tap the resources of the international capital market, as well as to test our proven operating model against the exacting demands of international investors. Capital raised on the international financial markets has provided the Company with the resources it needs to accomplish important strategic goals. It will use funds to enhance productivity, improve its capability in research and development, expand its distribution network, and make improvements in operating standards and service quality.

During the Review Period, the Group recorded substantial growth. Turnover increased 71.8% to RMB4.454 billion. Net profit grew 112.3% to RMB0.359 billion. Basic earnings per share were RMB0.344. Both turnover and net profit have met the Group's targets and exceeded

earnings forecasts at the time of listing. The Board has resolved to declare a final dividend of HK\$0.065 per share. We view this dividend payment as an expression of gratitude to shareholders, whose support we deeply appreciate.

We attribute these results to a variety of factors. These include the booming Chinese economy; strong growth of the consumer market; and stable expansion of the processed meat market, representing our core business.

According to the National Bureau of Statistics of China, China's gross domestic product increased 9.9% in 2005, while total retail sales of consumer goods grew 12.9%. The macro-economic environment has supported the Group's growth strategy.

The Group began as a producer of high-end low temperature meat products, and has focused since then on high quality products. We take pride in our strict quality controls. These cover every phase of the supply chain, from sourcing, processing, distribution and logistics to delivery to retail and wholesale customers. As we grew, most of the entities that eventually became part of the Group each obtained ISO9001 and/or HACCP certifications. Because we had been careful to incorporate best practice quality control in our operations, we were prepared for outbreaks of streptococcus suis, a pathogen in pigs, and avian influenza during 2005. While some of our competitors suffered negative impact to their brand image and reputation, we were able to emerge unscathed from these episodes. As a result, we were able to execute against strategy in 2005 without any major adjustment.

## “ Capitalize on market consolidation to deliver growth ”

### Prospects

For the national government, 2006 is the first year of China's Eleventh Five-Year Program. The Chinese economy is gradually transforming to a consumer-driven model. We expect the economy to sustain high growth, with even stronger growth in the retail sector — the pattern we experienced in 2005. The trend of urban migration will intensify, and as urban populations grow, so will pressure for higher living standards in all spheres of life, including processed food. Chinese consumers are insisting on better quality and better hygiene in the food they eat. Increasingly, they show preference for the reliability, consistency and accountability of branded products. All of these developments are positive for Yurun Food, which has been a pioneer in quality and hygiene management in the meat industry.

Going forward, the Group will seek new opportunities for organic growth. We plan to selectively expand our geographic coverage. We will use our extensive sales and distribution network to continue to explore market opportunities in mid to small size cities. In order to enhance awareness of our brands, we plan a number of marketing campaigns across the nation. We will further strengthen our operating structure, adjust our strategy to new market developments, and enhance our core competitiveness.

Yurun Food will continue to expand production capacity in meat products to enrich our product mix and heighten our visibility in the meat products market.

### Appreciation

Our aim is to become China's leading meat product supplier. In 2006, we expect to make substantial progress in achieving that goal. On behalf of the Board, I would like to take this opportunity to extend my thanks to our shareholders, customers and suppliers for their support. I would also like to express my gratitude to our outstanding management team and employees for their dedication and hard work. Yurun Food's strong performance in 2005 would not have been possible without them. We hope to see the same level of commitment and support as we face the challenges and opportunities of 2006, and maximizing value for our shareholders.

Zhu Yicai  
*Chairman*

Hong Kong, 29 March 2006