

Report of the Directors

The Board of Yurun Food takes pleasure in submitting its first annual report after its listing on 3 October 2005 ("Listing Date"), together with the report of the Directors and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the offer of a wide range of pork (chilled and frozen) and processed meat (low temperature meat products and high temperature meat products) (with a particular focus on pork products), marketed under its primary "Yurun", "Furun", "Wangrun" and "Popular Meat Packing" brands. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 51 to 120.

The Board recommends the payment of a final dividend of HK\$0.065 (equivalent to approximately RMB0.068) per ordinary share which shall be payable on or about 30 May 2006 to shareholders whose names appear on the register of members of the Company on 23 May 2006.

FIXED ASSETS

Details of movements in the fixed assets of the Group for the year ended 31 December 2005 are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company from the date of incorporation at 21 March 2005 ("Date of Incorporation") to 31 December 2005 are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Pursuant to the international underwriting agreement dated 23 September 2005, the Company granted an option ("Over-allotment Option") to Goldman Sachs (Asia) L.L.C., the lead manager of the Global Offering, whereby the Company was required to allot and issue up to an aggregate of 62,412,850 additional shares to cover over allocation in the international offering. The exercise price per share for the Over-allotment Option is HK\$3.70. On 24 October 2005, the Over-allotment Option was partially exercised and, as a result, the Company issued 52,868,850 additional shares on 26 October 2005.

Since the listing of the Company's shares on the Stock Exchange on the Listing Date and up to the date of this annual report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

RESERVES

Details of movements in the reserves of the Company for the period from the Date of Incorporation to 31 December 2005 are set out in note 28 to the financial statements. The details of movements in the reserves of the Group during the year are also included in the Consolidated Statement of Changes in Equity on page 55 of this annual report.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out on pages 121 to 122 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately RMB396,899,000, of which approximately RMB98,152,000 has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB1,040,000 (2004: RMB1,164,000).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the largest and the five largest customers of the Group accounted for approximately 1.75% and 7.36% respectively of the Group's total turnover for the year.

Purchases from the largest and the five largest suppliers of the Group accounted for approximately 2.15% and 8.94% respectively of the Group's total purchases for the year.

None of the Directors, their respective associates or the existing shareholders who, to the knowledge of the Directors, own more than 5% of the Company's share capital, has any interest in any of the five largest customers and suppliers.

DIRECTORS

The Directors of the Company from the Date of Incorporation up to the date of this annual report were:

Executive Directors

Zhu Yicai ^{R/N}	(Chairman)	(Appointed on 29 March 2005)
Bi Guoxiang	(Chief Executive Officer)	(Appointed on 29 March 2005)
Zhang Yuanfei		(Appointed on 13 April 2005)
Zhu Yiliang		(Appointed on 13 April 2005)
Feng Kuande		(Appointed on 13 April 2005)
Ge Yuqi		(Appointed on 13 April 2005)

Non-executive Directors

Jiao Shuge (alias Jiao Zhen)		(Appointed on 13 April 2005)
Hsu Shang Wi, William ^A		(Appointed on 13 April 2005)
Hsu I-Yin, Joyce		(Appointed on 23 July 2005 and resigned on 15 February 2006)
Liu Yi Lan, Katherine		(Appointed on 29 March 2006)

Independent Non-executive Directors

Zheng Xueyi		(Appointed on 13 April 2005)
Kang Woon ^{A/R/N}		(Appointed on 13 April 2005)
Gao Hui ^{A/R/N}		(Appointed on 13 April 2005)

A : Members of Audit Committee

R : Members of Remuneration Committee

N : Members of Nomination Committee

In accordance with Bye-law 86(2) of the Company's Bye-laws, Miss Liu Yi Lan, Katherine will retire from office and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Zhu Yicai, Professor Zheng Xueyi, Mr. Kang Woon and Mr. Gao Hui will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considered all independent non-executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 22 to 25 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company with effect from the Listing Date for a term of three years. Each of these contracts may be terminated by either party giving not less than three months' notice in writing, provided that the executive Directors shall not resign during the first 12 months of the contract.

The non-executive and independent non-executive Directors are appointed for a period of one year in accordance with their respective appointment letters, who shall retire by rotation and be eligible for re-election subject to the rotation provisions in the Bye-laws of the Company.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company received written confirmations from the executive Directors namely, Mr. Zhu Yicai, Mr. Bi Guoxiang, Mr. Zhang Yuanfei, Mr. Zhu Yiliang, Mr. Feng Kuande and Mr. Ge Yuqi on 28 March 2006, pursuant to which they have agreed to waive part of their remuneration payable by the Group for their services rendered for the year ended 31 December 2005, amounting to RMB1,104,000 (2004: Nil) in aggregate.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest whether directly or indirectly in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during or at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the number of issued ordinary shares of the Company was 1,451,952,650; and the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Listing Rules were as follows:

Name of Director	Company/ name of associated corporation	Nature of interest	Number and class of securities (Note 1)	Approximate percentage of the issued ordinary shares in such corporation
Zhu Yicai ("Mr. Zhu")	Company	Interest of a controlled corporation (Note 2)	748,158,900 shares (L)	51.53%
			85,192,444 shares (S) (Note 3)	5.87%
	Willie Holdings Limited ("Willie Holdings")	Beneficial owner	93.41 ordinary shares (L)	93.41%

Notes:

- (1) The letters "L" and "S" denote the long position and short position in such securities respectively.
- (2) Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu, respectively. Mr. Zhu is taken to be interested in these shares by virtue of Part XV of the SFO.
- (3) In accordance with the prospectus of the Company dated 20 September 2005 ("Prospectus"), 45,819,994 shares out of the 85,192,444 shares are subject to the share charges granted by Willie Holdings to secure its obligations under the Second and Third Round Share Adjustment. Pursuant to the arrangement between Mr. Zhu and the investors in the second and third round financing, no more than the remaining 39,372,450 shares may be transferred to such investors by Willie Holdings after the financial year ended 31 December 2005. For further details, please refer to the paragraph headed "Third round financing" in the section headed "Our History and Structure" in the Prospectus.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to arrangements to enable the Directors to acquire benefits by means of the acquisitions of shares in or debentures of the Company or any other body corporate, and none of the Directors, chief executive or their spouse or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

SHARE OPTION SCHEME

Pursuant to the resolution passed by the shareholders of the Company on 10 September 2005, a share option scheme ("Scheme") was unconditionally approved and adopted on 3 October 2005. Relevant information relating to the Scheme is set out as follows:

(a) The purpose of the Scheme

The Scheme seeks to provide an incentive for the Qualified Participants (as hereinafter defined) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(b) Qualified Participants

The Board may at its discretion grant options to: (i) any executive Director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to the Company, any member of the Group or any Invested Entity (collectively, "Qualified Participants").

(c) Maximum number of shares available for issue under the Scheme

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company as at the Listing Date or 30% of the issued share capital of the Company from time to time. As at the date of this annual report, the total number of shares available for issue in respect thereof is 139,908,380 shares, representing approximately 9.6% of the total number of shares in issue.

(d) Maximum entitlement of each participant under the Scheme

Unless approved by shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any option-holder if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total shares then in issue.

(e) Timing for exercise of options

The period during which an option may be exercised in accordance with the terms of the Scheme shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than 10 years commencing on the offer date. Subject to the terms of the offer letter, there shall be no general performance target to or minimum holding period for the vesting or exercise of options.

(f) Payment for acceptance of option

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

(g) Basis of determining the exercise price

The subscription price shall be a price determined by the Board but in any event shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Participant ("Offer Date"); (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares.

(h) Period of the Scheme

Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the Listing Date.

Details of the Scheme are set out in the Prospectus.

No share option was granted by the Company since its adoption.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, so far as is known to the Directors and chief executive of the Company, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Shares and underlying shares of the Company

Name	Nature of interest	Number and class of shares (Note 1)	Approximate percentage of the issued ordinary shares
Willie Holdings	Beneficial owner	748,158,900 shares (L)	51.53%
		45,819,994 shares (S) (Note 2)	3.16%
		39,372,450 shares (S) (Note 3)	2.71%
Mr. Zhu	Interest of a controlled corporation	748,158,900 shares (L) (Note 4)	51.53%
		45,819,994 shares (S) (Note 2)	3.16%
		39,372,450 shares (S) (Note 3)	2.71%
Ms. Wu	Interest of a controlled corporation	748,158,900 shares (L) (Note 5)	51.53%
		45,819,994 shares (S) (Note 2)	3.16%
		39,372,450 shares (S) (Note 3)	2.71%
The Goldman Sachs Group, Inc.	Interest of controlled corporations	125,749,596 shares (L)	8.66%
		119,101,550 shares (S)	8.20%
The Goldman, Sachs & Co. LLC	Interest of controlled corporations	183,819,096 shares (L)	12.66%
		179,139,400 shares (S)	12.34%

Report of Directors (Continued)

Notes:

- (1) The letters "L" and "S" denote the person's long position and short position in such shares, respectively.
- (2) These shares are subject to the share charges granted by Willie Holdings to secure its obligations under the Second and Third Round Share Adjustment as disclosed in the Prospectus.
- (3) Pursuant to the arrangement between Mr. Zhu and the investors in the second and third round financing as disclosed in the Prospectus, Willie Holdings may be required to transfer no more than approximately 39,372,450 shares to such investors after the financial year ended 31 December 2005. For further details, please refer to the paragraph headed "Third round financing" in the section headed "Our History and Structure" in the Prospectus.
- (4) Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu, the spouse of Mr. Zhu, respectively. Mr. Zhu is taken to be interested in these shares by virtue of the SFO.
- (5) Ms. Wu is the spouse of Mr. Zhu and she is taken to be interested in these shares by virtue of the SFO.

Save as disclosed above, as at 31 December 2005, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares and underlying shares of the Company.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions require disclosure in the annual report of the Company:

<u>Types of transactions</u>	<u>Amount (RMB'000)</u>
1 Distribution fee in connection with sale of the Group's chilled and frozen pork by Shanghai Yurun Meat Product Co., Ltd. ("Shanghai Yurun")	3,556
2 Sale of raw pork to and distribution fee in connection with procurement of packaging materials for Anhui Xuerun Meat Product Co., Ltd. ("Anhui Xuerun")	18,213
3 Purchase of raw chicken meat from each of Anqing Furun Poultry Product Co. Ltd. ("Anqing Furun") and Liaocheng Furun Poultry Product Co., Ltd. ("Liaocheng Furun")	11,517
4 Leases between the Group and the Predecessor Group including the following:	
4.1 Lease of land and buildings in Jianye District, Nanjing, Jiangsu Province between Nanjing Yurun Food Joint Stock Co., Ltd. ("Yurun Stock") and Nanjing Yurun Food Co., Ltd. ("Nanjing Yurun")	1,100
4.2 Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Jiangsu Furun Meat Processing Co., Ltd. ("Jiangsu Furun") and Lianyungang Furun Food Co., Ltd. ("Lianyungang Furun")	980
4.3 Lease of land and buildings in Yingdong District, Fuyang, Anhui Province between Anhui Furun Meat Processing Co., Ltd. ("Anhui Furun") and each of Fuyang Furun Meat Processing Co., Ltd. ("Fuyang Furun") and Fuyang Yurun Meat Processing Co., Ltd. ("Fuyang Yurun")	1,405
4.4 Lease of land and buildings in Suzhou, Anhui Province between Suzhou Furun Meat Product Co., Ltd. ("Suzhou Furun") and Suzhou Wanrun Meat Processing Co., Ltd. ("Suzhou Wanrun")	1,175
4.5 Lease of land and buildings in Shizhong District, Neijiang, Sichuan Province between Sichuan Furun Meat Product Co., Ltd. ("Sichuan Furun") and each of Neijiang Furun Food Co. Ltd. ("Neijiang Furun") and Neijiang Yurun Food Co., Ltd. ("Neijiang Yurun")	2,635
4.6 Lease of land and buildings in Kaiyuan, Liaoning Province between Liaoning Kaiyuan Yurun Meat Product Co., Ltd. ("Kaiyuan Yurun") and Kaiyuan People Food Co., Ltd. ("Kaiyuan Dazhong")	365
4.7 Lease of land and buildings in Kaiyuan, Liaoning Province between Kaiyuan Yurun, Kaiyuan Furun Meat Product Co., Ltd. ("Kaiyuan Furun") and Kaiyuan Wanrun Food Co., Ltd. ("Kaiyuan Wanrun")	540
4.8 Lease of land and buildings in Tongzhou District, Beijing between Beijing Yurun Food Co., Ltd. ("Beijing Yurun Food") and Beijing Yurun Meat Co., Ltd. ("Beijing Yurun")	600
4.9 Lease of land and buildings in Baiyin Gansu Province between Baiyin Yurun Meat Product Co., Ltd. ("Baiyin Yurun"), Jiangsu Yurun Food Industry Group Company Limited ("Jiangsu Yurun Food Group") and Gansu Yurun Food Co., Ltd. ("Gansu Yurun")	1,400

Report of Directors (Continued)

<u>Types of transactions</u>	<u>Amount (RMB'000)</u>
4.10 Lease of land and buildings in Daowai District, Harbin, Heilongjiang Province between Harbin Popular Meat-Packing Group Co., Ltd. ("Harbin Popular") and each of Harbin Popular Fresh Food Co., Ltd. ("Harbin Fresh") and Harbin Popular Meat Product Co., Ltd. ("Harbin Product")	1,605
4.11 Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Donghai Wangrun branch of Yurun Stock ("Donghai Wangrun") and Nanjing Yurun	950
4.12 Lease of land and buildings in Conghua District, Guangzhou, Guangdong Province between Guangzhou Jinrun Food Co., Ltd. ("Guangzhou Jinrun") and Guangzhou Yurun Meat Food Co., Ltd. ("Guangzhou Yurun")	200
4.13 Lease of land and buildings in Fengfeng Mining Area, Handan City, Hebei Province between Handan Furun Meat Product Co., Ltd. ("Handan Furun") and Handan Wanrun Food Co., Ltd. ("Handan Wanrun")	430
4.14 Lease of land and buildings in Nanguan District, Kaifeng City, Henan Province between Kaifeng Furun Meat Product Co., Ltd. ("Kaifeng Furun") and Kaifeng Wanrun Food Co., Ltd. ("Kaifeng Wanrun")	650
4.15 Lease of land and buildings in Yuanba Town, Guangyuan, Sichuan Province between Guangyuan Furun Meat Product Co., Ltd. ("Guangyuan Furun Meat Product") and Harbin Fresh	350
	14,385
Total:	47,671

1. Distribution fee in connection with sale of the Group's chilled and frozen pork by Shanghai Yurun

On 30 March 2005, Shanghai Yurun entered into a distribution agreement with each of Kaiyuan Wanrun, Kaifeng Wanrun, Fuyang Furun, Lianyungang Furun, Suzhou Wanrun, Guangyuan branch of Harbin Fresh, Dujiangyan branch of Harbin Fresh, Harbin Fresh, Neijiang Furun, Handan Wanrun and Suihua Dazhong Meat Co., Ltd. ("Suihua Dazhong"). Pursuant to the distribution arrangements, Shanghai Yurun will distribute chilled and frozen pork for the Group's members in Shanghai at a distribution fee of 0.8% of the aggregate sales amount. The distribution fee is determined by reference to market price. The terms of the distribution arrangements took effect on 31 March 2005 and will expire on 31 December 2007. Shanghai Yurun has agreed to extend the term unconditionally if the relevant Group members agree.

The aggregate transaction value during the year amounted to approximately RMB3,556,000, which is equivalent to 0.08% of the Group's audited turnover for the year ended 31 December 2005.

2. Sale of raw pork to and distribution fee in connection with procurement of packaging materials for Anhui Xuerun

On 31 March 2005, Nanjing Yurun and Anhui Xuerun entered into an agreement. Pursuant to the agreement, Nanjing Yurun has agreed to supply raw pork or packaging materials that are required by Anhui Xuerun in its production. The fee charged for procuring materials for Anhui Xuerun is 3% of the amount of the materials procured. The agreement is valid for three years, commencing on 1 January 2005 and ending on 31 December 2007, unless terminated by either party serving not less than three months' written notice.

The aggregate transaction value during the year amounted to approximately RMB18,213,000, in which RMB18,033,000 was for sales of raw pork and RMB180,000 was for procurement of packaging materials, which is equivalent to 0.41% of the Group's audited turnover for the year ended 31 December 2005.

3. Purchase of raw chicken meat from each of Anqing Furun and Liaocheng Furun

On 1 April 2005, Nanjing Yurun entered into an agreement with each of Anqing Furun and Liaocheng Furun. Pursuant to the agreements, each of Anqing Furun and Liaocheng Furun has agreed to provide raw materials to Nanjing Yurun. The price that Nanjing Yurun has to pay to each of Anqing Furun and Liaocheng Furun shall be determined by the relevant parties after negotiation by reference to the market price at the time the order is placed. Such price, however, shall in no event be higher than the average price at which Anqing Furun and Liaocheng Furun supply the same kind of product to other parties in that month. The agreements are valid for three years, commencing on 1 January 2005 and ending on 31 December 2007.

The aggregate transaction value during the year amounted to approximately RMB11,517,000, which is equivalent to 0.26% of the Group's audited turnover for the year ended 31 December 2005.

4. Leases between the Group and the Predecessor Group

On 31 December 2004, the members of the Group entered into land and buildings lease agreements with the relevant companies of the Predecessor Group. Pursuant to the agreements, relevant members of the Predecessor Group have agreed to grant members of the Group the right to use certain land and buildings leases. The term of the lease is for 20 years commencing from 1 January 2005 and expiring on 31 December 2024. The aggregate amount of annual rental payments under the lease agreements is RMB14,385,000.

The aggregate amount of rental payments during the year amounted to approximately RMB14,385,000, which is equivalent to 0.32% of the Group's audited turnover for the year ended 31 December 2005.

Details of each of the lease agreement between the Group and the Predecessor Group and their respective transaction value during the year were as follows:

4.1 *Lease of land and buildings in Jianye District, Nanjing, Jiangsu Province between Yurun Stock and Nanjing Yurun*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Yurun Stock as the lessor and Nanjing Yurun as the lessee for the leasing of an industrial building situate at 17 Yurun Road, Jianye District, Nanjing, Jiangsu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB1,100,000 per annum. The transaction value during the year amounted to RMB1,100,000.

4.2 *Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Jiangsu Furun and Lianyungang Furun*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Jiangsu Furun as the lessor and Lianyungang Furun as the lessee for the leasing of an industrial building situate at 8 Xu Hai Xi Lu, Niu Shan Zhen, Donghai County, Lianyungang, Jiangsu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB980,000 per annum. The transaction value during the year amounted to RMB980,000.

4.3 *Lease of land and buildings in Yingdong District, Fuyang, Anhui Province between Anhui Furun and each of Fuyang Furun and Fuyang Yurun*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Anhui Furun as the lessor and each of Fuyang Furun and Fuyang Yurun as the lessee for the leasing of an industrial building situate at 16 Fu Hu Lu, Yingdong District, Fuyang, Anhui Province. The term of the leases is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB1,405,000 per annum. The transaction value during the year amounted to RMB1,405,000.

4.4 *Lease of land and buildings in Suzhou, Anhui Province between Suzhou Furun and Suzhou Wanrun*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Suzhou Furun as the lessor and Suzhou Wanrun as the lessee for the leasing of an industrial building situate at 18 Huai Hai Lu, Suzhou, Anhui Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB1,175,000 per annum. The transaction value during the year amounted to RMB1,175,000.

4.5 *Lease of land and buildings in Shizhong District, Neijiang, Sichuan Province between Sichuan Furun and each of Neijiang Furun and Neijiang Yurun*

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005 were entered into between Sichuan Furun as the lessor and each of Neijiang Furun and Neijiang Yurun as the lessee for the leasing of an industrial building situate at 281 Le Jiang Si Lu, Shizhong District, Neijiang, Sichuan Province. The term of the leases is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB2,635,000 per annum. The transaction value during the year amounted to RMB2,635,000.

4.6 *Lease of land and buildings in Kaiyuan, Liaoning Province between Kaiyuan Yurun and Kaiyuan Dazhong*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Kaiyuan Yurun as the lessor and Kaiyuan Dazhong as the lessee for the leasing of an industrial building situate at 69 Tie Xi Jie, Kaiyuan, Liaoning Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB365,000 per annum. The transaction value during the year amounted to RMB365,000.

4.7 *Lease of land and buildings in Kaiyuan, Liaoning Province between Kaiyuan Yurun, Kaiyuan Furun and Kaiyuan Wanrun*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Kaiyuan Yurun and Kaiyuan Furun as the lessor and Kaiyuan Wanrun as the lessee for the leasing of an industrial building situate at 69 Tie Si Jie, Tie Si Community, Kaiyuan, Liaoning Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB540,000 per annum. The transaction value during the year amounted to RMB540,000.

4.8 *Lease of land and buildings in Tongzhou District, Beijing between Beijing Yurun Food and Beijing Yurun*

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005 were entered into between Beijing Yurun Food as the lessor and Beijing Yurun as the lessee for the leasing of an industrial building situate at 1 Chuang Ye Hua Yuan, Tai Hu Xiang Kou Zi Cun Dong, Taihu County, Tongzhou District, Beijing. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB600,000 per annum. The transaction value during the year amounted to RMB600,000.

4.9 *Lease of land and buildings in Baiyin District, Baiyin, Gansu Province between Baiyin Yurun, Jiangsu Yurun Food Group and Gansu Yurun*

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005 were entered into between Baiyin Yurun and Jiangsu Yurun Food Group as the lessor and Gansu Yurun as the lessee for the leasing of an industrial building situate at 25 Jian She Xi Lu, Baiyin District, Baiyin, Gansu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB1,400,000 per annum. The transaction value during the year amounted to RMB1,400,000.

4.10 *Lease of land and buildings in Daowai District, Harbin, Heilongjiang Province between Harbin Popular and each of Harbin Fresh and Harbin Product*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Harbin Popular as the lessor and each of Harbin Fresh and Harbin Product as the lessee for the leasing of an industrial building situate at 54 Nan Ji Jie, Daowai District, Harbin, Heilongjiang Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB1,605,000 per annum. The transaction value during the year amounted to RMB1,605,000.

4.11 *Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Donghai Wangrun branch of Yurun Stock and Nanjing Yurun*

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005 were entered into between Donghai Wangrun branch of Yurun Stock as the lessor and Nanjing Yurun as the lessee for the leasing of an industrial building situate at 6 Xu Hai Xi Lu, Niu Shan Zhen, Donghai County, Lianyungang, Jiangsu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB950,000 per annum. The transaction value during the year amounted to RMB950,000.

4.12 *Lease of land and buildings in Conghua District, Guangzhou, Guangdong Province between Guangzhou Jinrun and Guangzhou Yurun*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Guangzhou Jinrun as the lessor and Guangzhou Yurun as the lessee for the leasing of an industrial building situate at Ling Nan Industrial Park, Ling Nan Cun, Qi Gan Zhen, Conghua District, Guangzhou, Guangdong Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB200,000 per annum. The transaction value during the year amounted to RMB200,000.

4.13 *Lease of land and buildings in Fengfeng Mining Area, Handan, Hebei Province between Handan Furun and Handan Wanrun*

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005 were entered into between Handan Furun as the lessor and Handan Wanrun as the lessee for the leasing of an industrial building situate at 45 Peng Xin Lu, Fengfeng Mining Area, Handan City, Hebei Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB430,000 per annum. The transaction value during the year amounted to RMB430,000.

4.14 *Lease of land and buildings in Nangan District, Kaifeng, Henan Province between Kaifeng Furun and Kaifeng Wanrun*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Kaifeng Furun as the lessor and Kaifeng Wanrun as the lessee for the leasing of an industrial building situate at 15 Wei Du Lu, Nangan District, Kaifeng City, Henan Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB650,000 per annum. The transaction value during the year amounted to RMB650,000.

4.15 *Lease of land and buildings in Yuanba Town, Guangyuan, Sichuan Province between Guangyuan Furun Meat Product and Harbin Fresh*

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005 were entered into between Guangyuan Furun Meat Product as the lessor and Harbin Fresh as the lessee for the leasing of an industrial building situate at Changba Cun, Yuanba Town, Guangyuan, Sichuan Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB350,000 per annum. The transaction value during the year amounted to RMB350,000.

Notes:

- (1) Shanghai Yurun, Anhui Xuerun, Anqing Furun, Liaocheng Furun, Yurun Stock, Jiangsu Furun, Anhui Furun, Suzhou Furun, Sichuan Furun, Kaiyuan Yurun, Kaiyuan Furun, Beijing Yurun Food, Baiyin Yurun, Jiangsu Yurun Food Group, Harbin Popular, Donghai Wangrun, Guangzhou Jinrun, Handan Furun, Kaifeng Furun, Guangyuan Furun Meat Product and Suihua Dazhong are beneficially owned by Mr. Zhu Yicai, the Chairman and controlling shareholder of the Company. They are connected persons of the Company as defined in the Listing Rules.
- (2) "Predecessor Group" is a group of companies which operated some or all of the business of the Group prior to the reorganization for listing.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Company;
2. on normal commercial terms; and
3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report of Directors (Continued)

The auditors of the Company have reviewed the continuing connected transactions pursuant to rule 14A.38 of the Listing Rules and advised the Board in writing with a copy provided to the Stock Exchange that the transactions:

1. have been approved by the Board;
2. are in accordance with the pricing policies of the Company;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the cap disclosed in the Prospectus and approved by the Stock Exchange.

Waiver

The Company has obtained a waiver from the Stock Exchange prior to the Company's listing in relation to the above connected transactions from strict compliance with the announcement requirements relating to continuing connected transactions under the Listing Rules until 31 December 2007.

Save as disclosed above, there were no other transactions which needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

USE OF PROCEEDS

The shares of the Company were listed on the Main Board of the Stock Exchange on 3 October 2005. Through the issue of 402,639,800 new shares at HK\$3.70 each, the Group raised approximately HK\$1.380 billion (approximately RMB1.437 billion), after deduction of related expenses. These proceeds were partly applied during the period ended 31 December 2005 in accordance with the section headed "Future Plans and Use of Proceeds" in the Prospectus as follows:

- approximately RMB27 million to expand production capacity;
- approximately RMB52 million for working capital requirements and general corporate purposes;
- approximately RMB1 million on research and development; and
- approximately RMB2 million on expanding and improving sales network.

The remaining net proceeds as at 31 December 2005 were placed as deposits with interest bearing bank accounts. The Company shall apply the remaining proceeds to their intended uses as set out in the Prospectus.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 34 to the financial statements.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float since the Listing Date and up to the date of this annual report as required under the Listing Rules.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has complied with the relevant provisions set out in the Code on Corporate Governance Practices based on the principles set out in Appendix 14 to the Listing Rules since the Listing Date, save for the fact that the Board did not establish written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules for relevant employees in respect of their dealings in the securities of the Company. The Company is committed to high standards of corporate governance. To comply with this code provision, the Board has resolved to adopt the code for securities transactions for relevant employees which is on no less exacting terms than the Model Code in respect of their dealing in the securities of the Company.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiry of all Directors, confirms that the Directors have complied with the required standard set out in the Model Code throughout the period from the Listing Date up to 31 December 2005.

Audit Committee, Remuneration Committee and Nomination Committee

The Company has established Audit Committee, Remuneration Committee and Nomination Committee in accordance with the requirements in the Listing Rules.

Details of the Company’s corporate governance practices are set out in the “Corporate Governance Report” on page 44 to 49.

AUDITORS

KPMG was appointed as auditors of the Company on 14 April 2005. KPMG will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 29 March 2006