Notes to the Financial Statements

China Yurun Food Group Limited ("the Company") was incorporated in Bermuda on 21 March 2005 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

The consolidated financial statements of the Company for the year comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate. The financial statements were authorised for issue by the directors on 29 March 2006.

1 REORGANISATION

Pursuant to a reorganisation (the "Reorganisation") of the Group completed on 10 September 2005 to rationalise the group structure in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the business operations of slaughtering, production and sales of chilled and frozen pork, and processed meat products with relevant assets and liabilities of the entities under common control (collectively referred to as "Predecessor Entities") were transferred to the companies now comprising the Group and the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 3 October 2005.

Details of the Reorganisation are set out in the prospectus dated 20 September 2005 issued by the Company.

2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 10 September 2005. Accordingly, the consolidated results of the Group for the years ended 31 December 2004 and 2005 include the results of the Company and its subsidiaries with effect from 1 January 2004 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets at 31 December 2004 and 2005 are combinations of the balance sheets of the Company and its subsidiaries at the respective balance sheet dates. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole. The Company was incorporated on 21 March 2005, no comparative figures are presented in respect of the Company's balance sheet.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by group entities.

(c) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries (Continued)

Intragroup balances and transactions and any unrealised gains and losses arising from intragroup transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see accounting policy (m)).

(d) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investment in an associate is stated at cost less impairment losses (see accounting policy (m)).

(e) Jointly controlled operations

Jointly controlled operation is a contractual arrangement whereby the Group and other parties combine their operations, resources and expertise to undertake an economic activity in which each party bears its own costs and takes a share of the revenue in the economic activity, such share being determined in accordance with the contractual arrangement.

In respect of the Group's interests in jointly controlled operations, the consolidated balance sheet includes the assets that it controls and the liabilities that it incurs; and the consolidated income statement includes the Group's share of expenses that the jointly controlled operations incurred and the Group's share of income earned by the jointly controlled operations.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency

(i) *Foreign currencies transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RMB at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) *Financial statements of foreign operations*

The assets and liabilities of foreign operations outside the People's Republic of China ("PRC"), including goodwill and fair value adjustments arising on consolidation, are translated to RMB at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to RMB at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are dealt with directly as a separate component of equity.

(g) Property, plant and equipment

(i) *Owned assets*

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (m)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) *Leased assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy (m)).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (Continued)

(iii) *Subsequent costs*

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated income statement as an expense as incurred.

(iv) *Depreciation*

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Properties	20–30 years
Plant and machinery	10–15 years
Motor vehicles	5–10 years
Furniture and fixtures	5–10 years

The residual value, if not insignificant, is reassessed annually. Effective from 1 July 2005, the Group revised its estimate of residual value from 5% to 10%. The change had the effect of reducing depreciation expense by approximate RMB2,000,000 for the period from 1 July 2005 to 31 December 2005 and is expected to decrease depreciation expense by approximate RMB3,400,000 for each subsequent year until the assets are fully depreciated.

(v) *Disposal*

Gains or losses arising from the retirement or disposal of properties, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(vi) *Construction in progress*

Construction in progress is stated at cost less impairment losses (see accounting policy (m)). Cost comprises direct costs of construction during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets of their intended use are substantially complete, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Goodwill

All business combinations, other than combination under common control, are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition on subsidiaries and associates and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses (see accounting policy (m)). Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the consolidated income statement.

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC land bureau. Land use rights are carried at cost less accumulated amortisation and impairment losses (see accounting policy (m)). Amortisation is charged to the consolidated income statement on a straight-line basis over the respective periods of the rights.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses (see accounting policy (m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses (see accounting policy (m)).

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories to bring them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes direct labour and an appropriate share of overheads based on normal operating capacity.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy (k)) and deferred tax assets (see accounting policy (v)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) *Calculation of recoverable amount*

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment (Continued)

(ii) *Reversals of impairment*

An impairment loss in respect of receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed.

In respect of other asset, an impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the consolidated income statement as interest expense.

(o) Convertible instruments

Convertible instruments that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments with both liability and equity components.

The liability component of the convertible instruments is calculated as the present value of the future interest and principal payments, discounted at a market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated net of unamortised transaction costs and unamortised discounts on convertible instruments (see below).

The equity component is calculated as the excess of the issue proceeds over the liability component.

Transaction costs incurred on issuance of the convertible instruments are allocated to the component parts in proportion to the allocation of proceeds.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Convertible instruments (Continued)

The discount on the convertible instruments, being the amount classified as equity as referred to above, are set off against the liability component and are amortised as interest expense on an effective interest rate method until conversion or maturity.

The transactions costs allocated to the liability component are amortised as interest expense on an effective interest rate method until conversion or maturity.

On conversion, the liability component, together with the relevant portion of the equity component constitute the consideration for the shares being issued.

(p) Bank and other loans

Bank and other loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, bank and other loans are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated income statement over the period of the loans on an effective interest basis.

(q) Employee benefits

(i) Salaries, wages, annual bonuses and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations are recognised as an expense in the consolidated income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(r) Provisions

A provision is recognised in the consolidated balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(s) Trade and other payables

Trade and other payables are stated at amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue recognition

(i) *Sales of goods*

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

(ii) *Government subsidy*

Subsidy income is recognised when it is probable that the grant will be received and all attaching conditions will be completed.

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the accounting periods covered by the lease terms.

(iv) *Interest income*

Interest income is recognised in the consolidated income statement as it accrues, using the effective interest method.

(u) Expenses

(i) *Operating lease payments*

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised in the consolidated income statement as an integral part of the total lease expense.

(ii) *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Expenses (Continued)

(iii) *Borrowing costs*

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred. Interest payable on borrowings calculated using the effective interest rate method is charged to the consolidated income statement. The interest expense component of finance lease payments is recognised in the consolidated income statement using the effective interest rate method.

(iv) *Research and development costs*

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no costs satisfy the criteria for the recognition of such costs as an asset. Research and development costs are therefore recognised as expenses in the period in which they are incurred.

(v) *Pre-operating expenses*

Pre-operating expenses are charged to the consolidated income statement as and when incurred.

(v) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their closed family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

4 TURNOVER

The principal activities of the Group are the slaughtering, production and sale of chilled and frozen pork and processed meat products.

Turnover represents the sales 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.

5 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

5 SEGMENT REPORTING (CONTINUED)

Business segments

The Group comprises the following main business segments:

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

Processed meat products : The processed meat products segment manufactures and distributes processed meat products, such as sausages and hams.

Geographical segment

As the Group mainly operates in the PRC, no geographical segment information is presented.

(a) *Revenue and expenses*

	Chilled and frozen pork		Processed meat products		Inter-segment elimination		Total	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Revenue from external customers	3,219,024	1,488,492	1,234,941	1,104,238	—	—	4,453,965	2,592,730
Inter-segment revenue	315,911	333,990	—	—	(315,911)	(333,990)	—	—
Segment revenue	3,534,935	1,822,482	1,234,941	1,104,238	(315,911)	(333,990)	4,453,965	2,592,730
Segment results	285,583	109,822	190,608	142,901	(3,573)	—	472,618	252,723
Unallocated income and expenses							(74,428)	12,759
Operating profit							398,190	265,482
Net financing costs							(31,001)	(43,756)
Share of loss of an associate	—	—	(507)	—	—	—	(507)	—
Income tax expense							(7,685)	(52,655)
Profit attributable to equity holders of the parent							358,997	169,071
Depreciation and amortisation for the year	13,965	14,090	29,123	35,797			43,088	49,887
Unallocated depreciation and amortisation for the year							62	—
							43,150	49,887
Significant non-cash expenses (other than depreciation and amortisation)	4,566	20,380	—	(3,357)			4,566	17,023

5 SEGMENT REPORTING (CONTINUED)

(b) *Assets and liabilities*

	Chilled and frozen pork		Processed meat products		Inter-segment elimination		Total	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Segment assets								
— Non-current assets	222,806	285,039	365,501	453,593	—	—	588,307	738,632
— Current assets	851,508	680,804	646,353	677,430	(634,507)	(625,717)	863,354	732,517
	1,074,314	965,843	1,011,854	1,131,023	(634,507)	(625,717)	1,451,661	1,471,149
Investment in an associate	—	—	5,255	—	—	—	5,255	—
Unallocated assets							1,399,743	2,381,603
Total assets							2,856,659	3,852,752
Segment liabilities	(269,527)	(443,233)	(656,089)	(1,021,021)	631,105	625,717	(294,511)	(838,537)
Unallocated liabilities							(320,488)	(2,358,941)
Total liabilities							(614,999)	(3,197,478)
Capital expenditure incurred during the year	44,382	33,439	59,830	35,320			104,212	68,759
Unallocated capital expenditure incurred during the year							86	—
							104,298	68,759

6 OTHER OPERATING INCOME

	2005 RMB'000	2004 RMB'000
Government subsidies	13,922	55,336
Rental income	1,323	1,680
Recognition of negative goodwill arising on business combinations	—	23,292
Sundry income	8,123	5,010
	23,368	85,318

Pursuant to the investment agreements entered into between the Group and the respective local governments, certain Predecessor Entities were entitled to government subsidies which approximated to the aggregate amount of income tax and miscellaneous government fees paid during the year, subject to the annual approval from the local governments. Government subsidies are recognised upon the approval of the local governments.

7 PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	2005 RMB'000	2004 RMB'000
(a) Net financing costs:		
Interest on bank and other loans wholly repayable within five years	23,850	43,444
Bank charges	832	1,030
Bills discount expenses	9,040	40,669
Reimbursement of bills discount expenses from a related company (note 33(b)(iv))	(9,032)	(40,035)
Amortisation of discounts and transaction cost of the convertible instruments	19,437	420
Interest on lease obligation	13,537	—
Foreign exchange gain	(2,890)	—
Interest income	(23,773)	(1,772)
	31,001	43,756
(b) Personnel expenses:		
Wages and salaries	101,951	81,410
Contributions to retirement benefit schemes	6,353	6,386
Social security contribution	1,588	1,596
Staff welfare	2,082	10,524
	111,974	99,916

The Group participates in pension schemes organised by the PRC government whereby the Group is required to pay annual contributions at rates ranging from 18 per cent to 24 per cent (2004: 18 per cent to 24 per cent) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2005.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

Save for the above schemes, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

7 PROFIT BEFORE TAX (CONTINUED)

Profit before tax is arrived at after charging/(crediting): (Continued)

	2005 RMB'000	2004 RMB'000
(c) Other items:		
Cost of inventories	3,814,656	2,214,701
Write down of inventories	2,688	—
Impairment losses on trade and other receivables	7,068	4,816
Reversal of impairment losses on trade and other receivables	(5,190)	(7,435)
Depreciation	42,991	46,084
Loss on disposal of property, plant and equipment	396	859
Operating lease charges		
— premises	576	6,409
— land use rights	1,245	—
Amortisation of lease prepayments	159	3,803
Research and development expenses	3,501	1,048
Auditors' remuneration	3,749	—

8 INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Current tax expense	7,153	52,850
Deferred tax expense/(income)		
Originating and reversal of temporary differences (note 19(b))	532	(195)
Income tax expense in the consolidated income statement	7,685	52,655

(a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands ("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 year ended 31 December 2005.

8 INCOME TAX EXPENSE (CONTINUED)

Income tax expense in the consolidated income statement represents: (Continued)

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a rate of 33 per cent during the year ended 31 December 2005 (2004: 33%), except for the following:

(i) The companies comprising the Group which are foreign invested enterprises in the PRC are entitled to a tax concession period during which they are fully exempted from PRC enterprise income tax for two years starting from its first profit-making year, followed by a 50 per cent reduction in the PRC enterprise income tax for the next three years.

(ii) Pursuant to Xinzhengfa (2002) No. 29 and the investment agreement entered into with the Administration Committee of Xinjiang Shihezi Economic and Technological Development Zone ("新疆石河子市經濟技術開發區管委會"), Xinjiang Yurun Food Co., Ltd. ("Xinjiang Yurun") is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for five years starting from its first profit-making year, followed by a reduced PRC enterprise income tax at 15 per cent for the remaining years through 2010.

(iii) Jiangsu Yurun Food Industry Group Company Limited ("Jiangsu Yurun Food Group"), the then holding company of certain Predecessor Entities, was awarded a "State-Level Agricultural Leading Enterprise" by the central government of the PRC in December 2002. Pursuant to Guoshuifa (2001) No. 124, a State-Level Agricultural Leading Enterprise is eligible to full exemption from PRC enterprise income tax. A subsidiary of more than a 50 per cent equity interest owned by a State-Level Agricultural Leading Enterprise is also entitled to exemption of PRC enterprise income tax if it is involved in the primary processing of agricultural products. Certain Predecessor Entities which were subsidiaries of Jiangsu Yurun Food Group and satisfied the above conditions were entitled to full exemption from PRC enterprise income tax for the year ended 31 December 2004.

8 INCOME TAX EXPENSE (CONTINUED)

The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense:

	2005 RMB'000	2005 %	2004 RMB'000	2004 %
Profit before tax	366,682		221,726	
Income tax using the PRC enterprise income tax rate of 33%	121,005	33.0	73,170	33.0
Effect of tax rates in foreign jurisdictions	3,688	1.0	139	0.1
Non-deductible expenses	3,362	0.9	8,589	3.8
Non-taxable income	—	—	(7,686)	(3.5)
Tax exempt profit	(120,370)	(32.8)	(21,557)	(9.7)
Income tax expense	7,685	2.1	52,655	23.7

Non-deductible expenses mainly comprise non-deductible portion of salaries, staff welfare expenses, entertainment expenses, penalty and surcharges, and promotion cost for PRC enterprise income tax purposes. Non-taxable income represents negative goodwill arising from business combinations.

9 INCOME TAX RECEIVABLES/PAYABLES

Current taxation in the consolidated balance sheet represents:

	The Group	
	2005 RMB'000	2004 RMB'000
At beginning of the year	(20,384)	(5,154)
Provision for PRC enterprise income tax for the year	(7,153)	(52,850)
PRC enterprise income tax paid	24,535	37,620
At end of the year	(3,002)	(20,384)
Represented by:		
Income tax receivables	—	505
Income tax payables	(3,002)	(20,889)
	(3,002)	(20,384)

10 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2005				
	Fees RMB'000	Basic salaries, allowance and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Zhu Yicai	—	371	4	—	375
Bi Guoxiang	—	371	4	—	375
Zhang Yuanfei	—	370	4	—	374
Zhu Yiliang	—	381	4	—	385
Ge Yuqi	—	209	4	—	213
Feng Kuande	—	109	4	—	113
Non-executive directors					
Jiao Shuge	—	—	—	—	—
Hsu William Shang Wi	—	—	—	—	—
Joyce I-Yin Hsu	—	—	—	—	—
Independent non-executive directors					
Kang Woon	26	—	—	—	26
Zheng Xueyi	26	—	—	—	26
Gao Hui	26	—	—	—	26
Total	78	1,811	24	—	1,913

10 DIRECTORS' REMUNERATION (CONTINUED)

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows: (Continued)

			2004		
	Fees RMB'000	Basic salaries, allowance and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Zhu Yicai	—	219	3	—	222
Bi Guoxiang	—	303	3	—	306
Zhang Yuanfei	—	300	3	—	303
Zhu Yiliang	—	308	3	—	311
Ge Yuqi	—	176	3	—	179
Feng Kuande	—	96	—	—	96
Non-executive directors					
Jiao Shuge	—	—	—	—	—
Hsu William Shang Wi	—	—	—	—	—
Joyce I-Yin Hsu	—	—	—	—	—
Independent non-executive directors					
Kang Woon	—	—	—	—	—
Zheng Xueyi	—	—	—	—	—
Gao Hui	—	—	—	—	—
Total	—	1,402	15	—	1,417

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the remaining one individual (2004: Nil) are as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other emoluments	913	—
Contributions to retirement benefit schemes	3	—
	916	—

The emoluments of the individual with the highest emoluments are within the band of HK$Nil to HK$1,000,000.

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent includes a profit of RMB87,045,000 which has been dealt with in the financial statements of the Company.

13 DIVIDENDS

(a) Dividends attributable to the year

	2005 RMB'000	2004 RMB'000
Final dividend proposed after the balance sheet date of HK$0.065 (approximate to RMB0.068) per share (2004: Nil)	98,152	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2005 RMB'000	2004 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year	—	90,818

Pursuant to a resolution passed at a board of directors' meeting on 10 December 2004, dividends of RMB90,818,000 for the year ended 31 December 2003 were declared by the Predecessor Entities to their then equity owners.

14 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity holders of the parent for the year of RMB358,997,000 and the weighted average number of 1,043,923,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the profit attributable to equity holders of the parent for the year of RMB169,071,000 and 915,000,000 shares in issue as at the date of the Prospectus as if the shares were outstanding throughout the year.

14 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

There were no dilutive potential ordinary shares as at 31 December 2005.

The calculation of diluted earnings per share for the year ended 31 December 2004 is calculated as follows:

(i) Profit attributable to equity holders of the parent (diluted)

	2004 RMB'000
Profit attributable to equity holders of the parent	169,071
After-tax effect of interest on convertible instruments	420
Profit attributable to equity holders of the parent (diluted)	169,491

(ii) Weighted average number of shares (diluted)

	2004 RMB'000
Weighted average number of shares	915,000
Effect of conversion of convertible instruments	3,680
Weighted average number of shares (diluted)	918,680

15 PROPERTY, PLANT AND EQUIPMENT

The Group

	Properties RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2004	338,418	250,632	30,702	10,727	28,699	659,178
Acquisitions through business combinations (note 29)	36,118	28,171	—	11	—	64,300
Other acquisitions	8,845	22,012	2,794	2,504	32,604	68,759
Transfers	26,673	5,003	—	37	(31,713)	—
Disposals	(1,200)	(781)	(1,664)	(370)	—	(4,015)
At 31 December 2004	408,854	305,037	31,832	12,909	29,590	788,222
At 1 January 2005	408,854	305,037	31,832	12,909	29,590	788,222
Deemed appropriations to equity owners of the Predecessor Entities (note 28(i))	(408,835)	(28,246)	(109)	(1,592)	(14,823)	(453,605)
Acquisitions through finance lease	408,835	28,246	109	1,592	—	438,782
Other acquisitions	507	20,066	4,215	3,469	76,041	104,298
Transfers	1,525	2,391	8	102	(4,026)	—
Disposals	—	(1,060)	(1,257)	(144)	—	(2,461)
At 31 December 2005	410,886	326,434	34,798	16,336	86,782	875,236

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group (Continued)

	Properties RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation:						
At 1 January 2004	118,143	65,456	13,560	4,746	—	201,905
Depreciation charge for the year	15,357	24,755	3,985	1,987	—	46,084
Disposals	(104)	(153)	(1,380)	(201)	—	(1,838)
At 31 December 2004	133,396	90,058	16,165	6,532	—	246,151
At 1 January 2005	133,396	90,058	16,165	6,532	—	246,151
Deemed appropriations to equity owners of the Predecessor Entities (note 28(i))	(133,557)	(14,665)	(7)	(414)	—	(148,643)
Acquisitions through finance lease	133,557	14,665	7	414	—	148,643
Depreciation charge for the year	13,972	24,439	2,490	2,090	—	42,991
Disposals	—	(604)	(748)	(119)	—	(1,471)
At 31 December 2005	147,368	113,893	17,907	8,503	—	287,671
Net book value:						
At 31 December 2005	263,518	212,541	16,891	7,833	86,782	587,565
At 31 December 2004	275,458	214,979	15,667	6,377	29,590	542,071

All properties are located in the PRC.

Property certificates of certain properties with an aggregate net book value of RMB3,622,000 (2004: RMB14,854,000) at 31 December 2005 are yet to be obtained.

Pursuant to respective investment agreements entered into with the local government authorities, certain property, plant and equipment with an aggregate net book value of RMB51,801,000 (2004: RMB54,754,000) at 31 December 2005, are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group (Continued)

Certain properties with an aggregate net book value of RMB12,832,000 (2004: RMB65,693,000) were pledged against bank loans of the Predecessor Entities totalling RMB20,000,000 (2004: RMB211,000,000) as at 31 December 2005.

Pursuant to the Reorganisation, certain property, plant and equipment owned by the Predecessor Entities with an aggregate net book value totalling RMB290,139,000 were not transferred to the Group but were leased to the Group under finance leases effected during the year ended 31 December 2005. In addition, certain construction in progress owned by the Predecessor Entities with an aggregate net book value totalling RMB14,823,000 was not transferred to the Group pursuant to the Reorganisation and was reflected as appropriations to equity owners of the Predecessor Entities for the year ended 31 December 2005. The Predecessor Entities have granted an option in favour of the Group to purchase the land use rights (note 16) and properties subject to the relevant lease agreements at a consideration which is equal to the higher of:

(i) the fair market value at the time of exercise of the option; and

(ii) an amount calculated by reference to the net book value of the relevant land use rights and properties at the time the lease commenced, lease payment made and the leasing period.

16 LEASE PREPAYMENTS

The lease prepayments represent cost of the land use rights in respect of land located in the PRC. The remaining period of the land use rights of the Group is 48 years.

Pursuant to respective investment agreements entered into with the local government authorities and the Group, certain land use rights with an aggregate net book value of RMB767,000 (2004: RMB63,709,000) at 31 December 2005 are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

Pursuant to the Reorganisation, certain land use rights owned by the Predecessor Entities with an aggregate net book value of RMB195,635,000 were not transferred to the Group but were leased to the Group under operating leases effected during the year. The unamortised balance of the land use rights of the Predecessor Entities that were not transferred to the Group was reflected as appropriations to equity owners of the Predecessor Entities.

Certain land use rights with an aggregate net book value of RMB46,952,000 were pledged against bank loans totalling RMB211,000,000 at 31 December 2004. No land use rights were pledged against bank loans as at 31 December 2005.

Land use rights certificates of certain land use rights with an aggregate net book value of RMB12,760,000 at 31 December 2004 was yet to be obtained, which have subsequently been obtained during the year ended 31 December 2005.

17 INVESTMENTS IN SUBSIDIARIES

	The Company 2005 RMB'000
Unlisted shares, at cost	717,263

Details of the subsidiaries at 31 December 2005 are as follows:

Name of company (note (iii))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activities
Key World Industrial Limited ("Key World")	BVI	US$1,147/ US$50,000	100	—	Investment holding
Greatfield Industrial Limited	BVI	US$1/US$50,000	—	100	Investment holding
Top Season Industries Limited	BVI	US$1/US$50,000	—	100	Investment holding
Best Fiscal International Limited	Hong Kong	HK$1/HK$10,000	—	100	Investment holding
Success Grand Investments Limited	Hong Kong	HK$1/HK$10,000	—	100	Investment holding
Fuyang Furun Meat Processing Co., Ltd. ("Fuyang Furun") (note (i)) 阜陽福潤肉類加工有限公司	PRC	US$29,000,000/ US$29,000,000	—	100	Slaughtering, production and sale of chilled and frozen pork
Handan Wanrun Food Co., Ltd. (note (i)) 邯鄲萬潤肉類加工有限公司	PRC	US$1,500,000/ US$1,500,000	—	100	Slaughtering, production and sale of chilled and frozen pork
Harbin Popular Fresh Food Co., Ltd. (note (ii)) 哈爾濱大眾肉聯生鮮有限公司	PRC	US$3,000,000/ US$3,000,000	—	93.3	Slaughtering, production and sale of chilled and frozen pork
Kaifeng Wanrun Food Co., Ltd. (note (i)) 開封萬潤肉類加工有限公司	PRC	US$1,500,000/ US$1,500,000	—	100	Slaughtering, production and sale of chilled and frozen pork
Kaiyuan Wanrun Food Co., Ltd. (note (i)) 開原萬潤肉類加工有限公司	PRC	US$2,000,000/ US$2,000,000	—	100	Slaughtering, production and sale of chilled and frozen pork
Lianyungang Furun Food Co., Ltd. (note (i)) 連雲港福潤食品有限公司	PRC	US$29,500,000/ US$29,500,000	—	100	Slaughtering, production and sale of chilled and frozen pork
Neijiang Furun Food Co., Ltd. (note (i)) 內江福潤肉類加工有限公司	PRC	US$4,000,000/ US$4,000,000	—	100	Slaughtering, production and sale of chilled and frozen pork

17 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries at 31 December 2005 are as follows: (Continued)

Name of company (note (iii))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activities
Suzhou Wanrun Meat Processing Co., Ltd. (note (i)) 宿州萬潤肉類加工有限公司	PRC	US$3,000,000/ US$3,000,000	—	100	Slaughtering, production and sale of chilled and frozen pork
Beijing Yurun Meat Co., Ltd. (note (i)) 北京雨潤肉類加工有限公司	PRC	US$2,000,000/ US$2,000,000	—	100	Production and sale of processed meat products
Fuyang Yurun Meat Processing Co., Ltd. (note (i)) 阜陽雨潤肉類加工有限公司	PRC	US$2,000,000/ US$2,000,000	—	100	Production and sale of processed meat products
Gansu Yurun Food Co., Ltd. (note (i)) 甘肅雨潤肉類加工有限公司	PRC	US$1,000,000/ US$1,000,000	—	100	Production and sale of processed meat products
Guangzhou Yurun Meat Food Co., Ltd. (note (i)) 廣州雨潤肉類食品有限公司	PRC	US$1,500,000/ US$1,500,000	—	100	Production and sale of processed meat products
Harbin Popular Meat Product Co., Ltd. (note (ii)) 哈爾濱大眾肉聯製品有限公司	PRC	US$4,000,000/ US$4,000,000	—	92.5	Production and sale of processed meat products
Kaiyuan People Food Co., Ltd. (note (i)) 開原大眾肉類加工有限公司	PRC	US$1,000,000/ US$1,000,000	—	100	Production and sale of processed meat products
Nanjing Yurun Food Co., Ltd. (note (i)) 南京雨潤食品有限公司	PRC	US$90,000,000/ US$90,000,000	—	100	Production and sale of processed meat products
Neijiang Yurun Food Co., Ltd. (note (i)) 內江雨潤肉類加工有限公司	PRC	US$1,500,000/ US$1,500,000	—	100	Production and sale of processed meat products
Xinjiang Yurun (note (i)) 新疆雨潤	PRC	RMB5,000,000/ RMB5,000,000	—	100	Business operation not yet commenced
Dangtu Yurun Food Co., Ltd. (note (i)) 當涂雨潤食品有限公司	PRC	US$Nil/ US$1,000,000	—	100	Business operation not yet commenced
Ma'an Shan Yurun Food Co., Ltd. (note (i)) 馬鞍山雨潤食品有限公司	PRC	US$Nil/ US$3,000,000	—	100	Business operation not yet commenced

17 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries at 31 December 2005 are as follows: (Continued)

Notes:

(i) These entities established in the PRC are wholly foreign owned enterprises.

(ii) These entities established in the PRC are sino foreign joint-venture companies.

(iii) The English translation of the company names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the consolidated financial statements.

18 INVESTMENT IN AN ASSOCIATE

	The Group	
	2005 RMB'000	2004 RMB'000
Share of net assets	5,255	—

Details of the associate at 31 December 2005 are as follows:

Name of Company	Place of establishment and operation	Registered capital	Attributable equity interest indirectly held by the Group	Principal activities
Itoham Foods Beijing Co., Ltd. ("Itoham") 伊藤食品(北京)有限公司	PRC	USD2,800,000	25%	Production and sale of processed meat products

Summary financial information on the associate

	2005				
	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Loss RMB'000
100 per cent	21,701	683	21,018	331	(2,027)
Group's effective interest	5,426	171	5,255	83	(507)

The associate established in the PRC is a wholly foreign owned enterprise.

19 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2005 are attributable to the following:

	The Group					
	Assets		Liabilities		Net	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Property, plant and equipment	14,171	3,102	(1,195)	(903)	12,976	2,199
Lease prepayments	—	2,364	—	(349)	—	2,015
Impairment loss on trade and other receivables	7,441	7,620	—	—	7,441	7,620
Accrued expenses	—	605	(2,320)	(2,327)	(2,320)	(1,722)
Pre-operating expenses written off	—	266	—	—	—	266
Unused tax losses	—	774	—	—	—	774
Total deferred tax assets/(liabilities)	21,612	14,731	(3,515)	(3,579)	18,097	11,152
Set off of tax under the same tax jurisdiction	(2,320)	(3,579)	2,320	3,579	—	—
Net deferred tax assets	19,292	11,152	(1,195)	—	18,097	11,152

19 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Movements in temporary differences

Movements in temporary differences during the year are as follows:

	The Group			
	At 1 January 2005 RMB'000	Recognised in reserve RMB'000	Recognised in income RMB'000	At 31 December 2005 RMB'000
Property, plant and equipment	2,199	10,777	—	12,976
Lease prepayments	2,015	(2,015)	—	—
Impairment loss on trade and other receivables	7,620	353	(532)	7,441
Accrued expenses	(1,722)	(598)	—	(2,320)
Pre-operating expenses written off	266	(266)	—	—
Unused tax loss	774	(774)	—	—
Total	11,152	7,477	(532)	18,097

	The Group			
	At 1 January 2004 RMB'000	Additions through business combinations (note 29) RMB'000	Recognised in income RMB'000	At 31 December 2004 RMB'000
Property, plant and equipment	3,012	(216)	(597)	2,199
Lease prepayments	1,669	—	346	2,015
Impairment loss on trade and other receivables	6,550	2,178	(1,108)	7,620
Accrued expenses	354	(2,828)	752	(1,722)
Pre-operating expenses written off	238	—	28	266
Unused tax loss	—	—	774	774
Total	11,823	(866)	195	11,152

20 INVENTORIES

	The Group	
	2005 RMB'000	2004 RMB'000
Raw materials	102,235	110,834
Work in progress	28,216	23,182
Finished goods	286,698	166,069
	417,149	300,085

As at 31 December 2005, inventories with a carrying value of RMB50,059,000 (2004: Nil) were stated at fair value less costs to sell.

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2005 RMB'000	2004 RMB'000	2005 RMB'000
Trade receivables (note 21(a))	325,614	352,557	—
Bills receivable (note 21(b))	1,091	669,725	—
Value-added tax recoverable	72,391	45,005	—
Deposits and prepayments	29,500	17,335	316
Others	19,135	18,030	207
	447,731	1,102,652	523

All of the trade and other receivables are expected to be recovered within one year. As at 31 December 2005, amounts due from related companies of RMB5,724,000 (2004: RMB21,714,000) are included in trade receivables (note 33(c)).

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables

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

	The Group	
	2005 RMB'000	2004 RMB'000
Within 30 days	216,024	175,490
31 days to 90 days	80,897	135,148
91 days to 180 days	23,725	31,635
Over 181 days	4,968	10,284
	325,614	352,557

The Group normally allows a credit period ranging from 30 days to 90 days to its customers.

(b) Bills receivable

An ageing analysis of the bills receivable of the Group is analysed as follows:

	The Group	
	2005 RMB'000	2004 RMB'000
Within 30 days	—	60,000
31 days to 60 days	—	98,400
61 days to 90 days	502	89,600
Over 90 days	589	421,725
	1,091	669,725

Bills discounted to the bank with recourse totalling RMB669,500,000 were included in bills receivable (note 23(i)) as at 31 December 2004. There were no bills discounted with recourse as at 31 December 2005.

22 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2005	2004	2005
	RMB'000	RMB'000	RMB'000
Cash and bank balances	1,355,536	250,566	375,866

23 BANK AND OTHER LOANS

The bank and other loans are repayable as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Bank loans		
— Within one year	20,000	1,611,500
— After one year but within two years	—	24,400
— In three to five years, inclusive	—	32,000
	20,000	1,667,900
Loan from other financial institution		
— Within one year	—	60,000
Municipal government loans		
— Within one year	—	64,623
— After one year but within two years	—	1,523
— In three to five years, inclusive	—	4,570
— Over five years	—	7,618
	—	78,334
Total loans	20,000	1,806,234
Less: Loans due within one year classified as current liabilities	(20,000)	(1,736,123)
	—	70,111

23 BANK AND OTHER LOANS (CONTINUED)

Terms

	Note	The Group 2005 RMB'000	The Group 2004 RMB'000
Secured bank loans:			
Fixed interest rate ranging from 3.40% p.a. to 8.57% p.a.	(i)	—	880,500
Guaranteed bank loans:			
Fixed interest rate ranging from 3.14% p.a. to 6.26% p.a.		—	433,000
Variable interest rate at prevailing market rate		—	114,400
Fixed interest rate ranging from 2.88% p.a. to 7.128% p.a. for the first year. Variable interest rate at prevailing market rate for the remaining years		—	240,000
	(ii)	—	787,400
Unsecured bank loan:			
Fixed interest rate at 5.58% p.a.		**20,000**	—
Municipal government loans:			
Interest free	(iii)	—	78,334
Loan from other financial institution:			
Fixed interest rate at 8.57% p.a.	(ii)	—	60,000
		20,000	1,806,234
Less: Loans due within one year classified as current liabilities		**(20,000)**	(1,736,123)
		—	70,111

23 BANK AND OTHER LOANS (CONTINUED)

Terms (Continued)

Notes:

(i) The secured bank loans were secured by the following assets:

	The Group	
	2005	2004
	RMB'000	RMB'000
Carrying value of assets:		
Bills receivable	—	669,500
Properties	—	65,693
Land use rights	—	46,952
	—	782,145

(ii) The guaranteed bank loans and loan from other financial institution at 31 December 2004 were guaranteed by Jiangsu Yurun Food Group, except for a guaranteed bank loan of RMB30,000,000 which was guaranteed collectively by Jiangsu Yurun Food Group and Mr Zhu Yicai, the beneficial owner and director of the Company. These guarantees were released during the year ended 31 December 2005.

(iii) Pursuant to the Reorganisation and relevant PRC laws, municipal government loans of RMB68,934,000 were not assumed by the companies comprising the Group during the year ended 31 December 2005. The remaining amounts were fully settled during the year ended 31 December 2005.

(iv) Historically the Predecessor Entities obtained certain borrowings from banks and bills payable (note 26(b)) and on-lent part of the proceeds to related companies of which the principal activities are non-food operations. Pursuant to the Reorganisation, the Predecessor Entities have obtained the consents of the relevant banks to the disposition of the food operations together with the selected assets and liabilities to the companies comprising the Group. Pursuant to PRC Laws, the bank borrowings totalling RMB835,400,000 were not be included in the liabilities to be assumed by the companies comprising the Group after the Reorganisation and accordingly were derecognised effective from the date of consents obtained from the banks.

24 FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

	The Group At 31 December 2005		
	Total minimum lease payments RMB'000	Interest expense relating to future periods RMB'000	Present value of the minimum lease payments RMB'000
Less than one year	14,385	13,498	887
Between one and five years	57,540	53,557	3,983
More than five years	688,767	404,346	284,421
	746,307	457,903	288,404
Total finance lease obligations	760,692	471,401	289,291

25 CONVERTIBLE INSTRUMENTS

	The Group		The Company
	2005 RMB'000	2004 RMB'000	2005 RMB'000
Carrying amount as at 1 January	117,772	—	—
Proceeds from issue of convertible instruments	—	247,923	—
Transaction costs	—	(2,100)	—
Net proceeds	—	245,823	—
Amount classified as equity	—	(128,471)	—
Transaction costs amortised	156	9	—
Discount on convertible instruments amortised	19,281	411	—
Foreign currency translation	(2,893)	—	—
Transfer from Key World to the Company	—	—	134,316
Conversion into shares of the Company	(134,316)	—	(134,316)
Carrying amount of liability at 31 December	—	117,772	—

25 CONVERTIBLE INSTRUMENTS (CONTINUED)

On 20 December 2004, Key World issued convertible instruments (the "Convertible Instruments") for an aggregate principal amount of US$30,000,000 (equivalent to approximately RMB247,923,000) to two independent parties (the "Holders") who are entitled to interest payable simultaneously with any payment of dividends to the holders of the ordinary shares of Key World on an as if converted basis. The outstanding principal amount of the Convertible Instruments, in whole or any integral multiples of US$6,000,000, shall convert into such number of ordinary shares of Key World at a conversion price equal to approximately US$2,043.74 (equivalent to RMB16,890) per share (the "Conversion Price"). Pursuant to the terms of the Convertible Instruments, the Conversion Price is subject to adjustment under certain conditions and the Holders could elect to redeem the Convertible Instruments at a predefined rate if certain conditions occur.

On the maturity date, 20 December 2009, Key World is required to redeem all Convertible Instruments at the principal amount (plus accrued interest due and payable) if not already converted by that date. The Convertible Instruments were secured by the shares of Key World and guaranteed by Mr Zhu Yicai and Ms Wu Xueqin, beneficial owners of the Company.

The values of the liability component and equity component of the Convertible Instruments were valued by an independent firm of surveyors, Vigers Appraisal & Consulting Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors, based on the discounted cash flow method at the issuance of the Convertible Instruments.

On 10 September 2005, the Holders transferred the Convertible Instruments in an outstanding amount of US$30,000,000 to the Company in consideration of the Company issuing the new convertible instruments in an amount of US$30,000,000 (the "New Convertible Instruments") to the Holders.

On 10 September 2005, the entire Convertible Instruments held by the Company were converted into 14,679 ordinary shares of Key World.

On 3 October 2005, the entire New Convertible Instruments were converted into 134,312,850 ordinary shares of the Company.

26 TRADE AND OTHER PAYABLES

	The Group		The Company
	2005	2004	2005
	RMB'000	RMB'000	RMB'000
Trade payables (note 26(a))	**146,130**	244,288	—
Bills payable (note 26(b))	—	387,280	—
Receipts in advance	**44,714**	73,794	—
Other payables and accruals (note 26(c))	**110,667**	135,282	**6,650**
	301,511	840,644	**6,650**

Included in trade payables at 31 December 2005 were amounts due to related companies of RMB5,092,000 (2004: RMB64,503,000) (note 33(d)).

(a) Trade payables

An ageing analysis of trade payables is set out below:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 30 days	**91,064**	133,267
31 days to 90 days	**37,145**	55,845
91 days to 180 days	**6,702**	25,748
Over 181 days	**11,219**	29,428
	146,130	244,288

26 TRADE AND OTHER PAYABLES (CONTINUED)

(b) Bills payable

An ageing analysis of the bills payable of the Group is analysed as follows:

	The Group	
	2005 RMB'000	2004 RMB'000
Within 30 days	—	20,000
31 days to 60 days	—	50,000
61 days to 90 days	—	178,000
Over 90 days	—	139,280
	—	387,280

As at 31 December 2005, bank deposits totalling RMB23,364,000 (2004: RMB192,127,000) were pledged to banks to secure the letters of credit and bills facilities. Saved as disclosed in note 23(iv), bills payable totalling RMB307,280,000 would not be included in the liabilities assumed by the Group and accordingly were derecognised effective from the date of consents obtained from the banks during the year ended 31 December 2005.

(c) Other payables and accruals

As at 31 December 2005, provision for severance payments of RMB320,000 (2004: RMB36,436,000), in connection with the acquisition of the business operations together with relevant assets and liabilities from independent third parties are included in other payables and accruals. Obligations to severance payments of RMB35,079,000 were not assumed by the Group pursuant to the Reorganisation.

27 SHARE CAPITAL

	Note	2005 Preference Shares (thousand)	Number of shares Ordinary Shares (thousand)	Total (thousand)	Amount RMB'000
Authorised:					
Ordinary shares of HK$0.1 each at incorporation of 29 March 2005	(a)	—	1,000	1,000	104
Increase in authorised share capital	(b)	166,841	2,832,159	2,999,000	311,896
Re-designation	(e)	(166,841)	166,841	—	—
		—	3,000,000	3,000,000	312,000
Issued:					
Shares issued upon incorporation	(a)	—	1,000	1,000	—
Issuance of new shares pursuant to the Reorganisation	(b)	166,841	747,159	914,000	95,160
Issuance of new shares upon conversion of New Convertible Instruments	(c)	—	134,313	134,313	13,968
Issuance of new shares by global offering	(d)	—	402,640	402,640	41,875
Re-designation	(e)	(166,841)	166,841	—	—
At 31 December		—	1,451,953	1,451,953	151,003

Notes:

(a) The Company was incorporated in Bermuda on 21 March 2005. On 29 March 2005, 1,000,000 ordinary shares at a par value of HK$0.1 each ("Ordinary Shares") were issued and allotted nil-paid to Willie Holdings Limited.

(b) Pursuant to the written resolutions of the sole shareholder of the Company passed on 10 September 2005, as part of the Reorganisation, the Company increased the authorised share capital from HK$100,000 to HK$300,000,000 by the creation of an additional 2,832,158,900 Ordinary Shares and 166,841,100 preference shares at a par value of HK$0.1 each ("Preference Shares"). On the same date, the Company allotted and issued, credited as fully paid a total of 747,158,900 Ordinary Shares and 166,841,100 Preference Shares; and credited as fully paid at par the 1,000,000 nil-paid Ordinary Shares as consideration for the acquisition of the entire share capital of Key World and became the holding company of the Group.

27 SHARE CAPITAL (CONTINUED)

Notes: (Continued)

(c) Pursuant to the written resolution of the Board of Directors passed on 26 September 2005, 134,312,850 Ordinary Shares of the Company were issued on 3 October 2005 on the conversion of the New Convertible Instruments with total carrying values of RMB262,787,000 made up as follows:

	RMB'000
Liability component (note 25)	134,316
Equity component (note 28)	128,471
	262,787

(d) On 3 October 2005, 349,770,950 additional Ordinary Shares were issued and offered for subscription at a price of HK$3.7 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. On 26 October 2005, an additional 52,868,850 Ordinary Shares were issued and offered for subscription under the over-allotment option. The proceeds of HK$40,264,000 (equivalent to RMB41,875,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$1,449,503,000 (equivalent to RMB1,507,483,000), before the share issue expenses of RMB112,005,000, were credited to the share premium account.

(e) On 3 October 2005, all issued Preference Shares were re-designated to Ordinary Shares.

(f) Share capital at 31 December 2004 represented the aggregated amount of paid-in capital of the companies comprising the Group, after elimination of investments in subsidiaries.

28 RESERVES

(a) The Company

	Note	Share premium RMB'000 (note 28(b))	Contributed surplus RMB'000 (note 28(g))	New convertible instruments reserve RMB'000 (note 28(e))	Retained earnings RMB'000	Total RMB'000
At 21 March 2005 (date of incorporation)		—	—	—	—	—
Issuance of New Convertible Instruments	25	—	—	128,471	—	128,471
Issuance of new shares pursuant to the Reorganisation	27(b)	49,461	309,854	—	—	359,315
Issuance of new shares upon conversion of New Convertible Instruments	27(c)	248,819	—	(128,471)	—	120,348
Issuance of new shares by global offering	27(d)	1,507,483	—	—	—	1,507,483
Share issue expenses		(112,005)	—	—	—	(112,005)
Profit for the year		—	—	—	87,045	87,045
		1,693,758	309,854	—	87,045	2,090,657

(b) Share premium

Under the Companies Act 1981 of Bermuda, the share premium account may be applied by the Company in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(c) Capital surplus

The capital surplus represented the excess of paid-in capital of the companies comprising the Group.

(d) Merger reserve

The merger reserve of the Group as at 31 December 2005 represents the difference between the net assets of the Predecessor Entities acquired over the nominal value of shares issued by Key World. This reserve is distributable.

28 RESERVES (CONTINUED)

(e) Convertible instruments reserve/new convertible instruments reserve

Convertible instruments reserve and new convertible instruments reserve comprise the value of the options granted to instrument holders to convert their convertible instruments into ordinary shares of Key World and the Company respectively (note 25).

(f) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective board of directors.

(i) *Statutory surplus reserve*

The Predecessor Entities in the PRC are required to transfer ten per cent. of their net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50 per cent. of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners. Upon the completion of Reorganisation, the balance of statutory surplus reserve was transferred to merger reserve.

(ii) *Statutory public welfare fund*

Under the PRC Company Law and the Predecessor Entities' articles of association, each of the Predecessor Entities is required to transfer not more than ten per cent. of its net profit, as determined under the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Predecessor Entities' employees. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to equity owners. Upon the completion of Reorganisation, the balance of statutory public welfare fund was transferred to merger reserve.

(iii) *Statutory general reserve*

Under the PRC Company Law and the subsidiaries' articles of association, each of the subsidiaries of the Group in the PRC is required to transfer at least ten per cent. of its net profit, as determined under the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50 per cent. of the capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

Statutory general reserve can be used to make good previous years' losses, if any, and may be converted into share capital by issuing new shares to equity owners proportionate to their existing percentage of equity interests provided that the balance after such issue is not less than 25 per cent. of the registered capital.

28 RESERVES (CONTINUED)

(g) Contributed surplus

Pursuant to the Reorganisation, the Company became the holding company of the Group on 10 September 2005. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus.

(h) Distributable reserves

In addition to retained profits, under the Companies Act of Bermuda, the contributed surplus account of the Company is also available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB396,899,000.

(i) Deemed appropriations to equity owners

Deemed appropriations to equity owners for the year ended 31 December 2004 represent profits of certain Predecessor Entities and equity of Jiangsu Wangrun Foods Co., Ltd. ("Jiangsu Wangrun") retained by the then respective equity owners.

Pursuant to the Reorganisation, the following assets and liabilities of the Predecessor Entities were not transferred to the Group and were reflected as deemed distributions to the then equity owners in the consolidated statement of changes in equity for the year.

	Year ended 31 December 2005 RMB'000
Property, plant and equipment	304,962
Lease prepayments	195,635
Net current assets	268,046
Bank and other loans	(228,000)
	540,643

29 BUSINESS COMBINATIONS

During the year ended 31 December 2004, the Group acquired the business operations of slaughtering, production and sales of chilled and frozen pork, and processed meat products together with the relevant assets and liabilities of the following companies in the PRC from independent third parties:

Name of company	Date of acquisition	Principal activities	Consideration	Results contributed by the companies from dates of acquisition to the respective year 2005	2004
			RMB'000	RMB'000	RMB'000
Kaifeng Meat Processing Factory* 開封市肉聯廠	22 March 2004	Slaughtering, production and sale of chilled and frozen pork	13,000	8,549	274
Harbin Meat Processing Factory* 哈爾濱肉類聯合加工廠	12 January 2004	Slaughtering, production and sale of chilled and frozen pork, and processed meat products	—	31,331	9,652
Guangyuan North Sichuan Meat Processing Factory* 廣元川北肉類食品加工廠	24 April 2004	Slaughtering, production and sale of chilled and frozen pork	4,200	(2,009)	(1,501)
				37,871	8,425

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

The disclosure of the Group's revenue and net profit/loss attributable to equity holders of the parent for the year ended 31 December 2004 as if the acquisition date for all business combinations had occurred on 1 January 2004 was impracticable since relevant information could not be obtained from the former equity owners.

29 BUSINESS COMBINATIONS (CONTINUED)

The acquisitions had the following effect on the Group's assets and liabilities:

Acquirees' net assets at the acquisition date

	For the year ended 31 December 2004 RMB'000
Lease prepayments	89,375
Property, plant and equipment (note 15)	64,300
Inventories	8,329
Cash and cash equivalents	20,241
Trade and other receivables	8,945
Amounts due from related companies	44,751
Trade and other payables	(109,683)
Bank and other loans	(84,900)
Deferred tax liabilities (note 19(b))	(866)
Net identifiable assets	40,492
Negative goodwill arising on acquisitions (note 6)	(23,292)
Total purchase price paid, satisfied in cash	17,200
Less: Cash of the subsidiaries acquired	(20,241)
Net cash inflow in respect of the acquisitions of subsidiaries	(3,041)

Negative goodwill has arisen on the acquisition of business operations as a result of gains from bargain purchases.

30 FINANCIAL INSTRUMENTS

Exposure to liquidity, credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Liquidity risk

The Group actively manages its debt maturity profile and operating cash flows whilst ensuring that funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

30 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

There were no significant concentrations of credit risk at 31 December 2005. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(c) Interest rate risk

The interest rates and terms of repayment of bank and other outstanding loans are disclosed in note 23.

The financial assets and liabilities as at 31 December 2005 are not repriceable.

(d) Foreign currency risk

Substantially all the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China ("PBOC"). During the year ended 31 December 2005, the exchange rate regime was reformed by moving into a managed floating exchange regime based on the market supply and demand with reference to a basket of foreign currencies from unified controlled exchange rate. However, it does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

30 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk (Continued)

Included in assets and liabilities are the following amounts denominated in a currency other than the functional currency of the Group:

	The Group		The Company
	2005	2004	2005
	US$'000	US$'000	US$'000
United States Dollars:			
Current assets	107	5,753	—
Current liabilities	(57)	(253)	(57)
	50	5,500	(57)
	HK$'000	HK$'000	HK$'000
Hong Kong Dollars:			
Current assets	362,129	1	361,911
Current liabilities	(5,932)	(6)	(5,932)
	356,197	(5)	355,979

(e) Fair value

The fair values of cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amounts due from/to related parties and other loans are not materially different from their carrying amounts.

The carrying values of pledged deposits, short-term deposits and short-term bank and other loans are estimated to approximate to their fair values based on the nature or short-term maturity of these instruments.

The fair value of finance lease liabilities is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements and approximates to the carrying value.

30 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value (Continued)

The fair values of the Group's non-current portion of bank and other loans estimated by applying a discounted cash flow using the current market rates for similar financial instruments are as follows:

	2005 RMB'000	2004 RMB'000
Carrying amount	—	70,111
Fair value	—	67,176

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Group uses one year interest rate quoted by PBOC as of 31 December 2005 to discount financial instruments in estimating the fair values of financial instruments reflected in the table set out in above. The interest rates used are as follows:

	2005	2004
Loans and borrowings	5.58%	2.88% – 8.57%

31 COMMITMENTS

(a) Operating leases

The Group's total future minimum lease payments under non-cancellable operating leases in respect of properties were payable as follows:

	2005 RMB'000	2004 RMB'000
Within 1 year	247	393
After 1 year but within 5 years	—	363
After 5 years	—	3,066
	247	3,822

The Group leased a number of properties under operating leases. None of the leases includes contingent rentals.

(b) Capital commitments

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	2005 RMB'000	2004 RMB'000
Contracted for	70,750	1,065
Authorised but not contracted for	535,379	435,196
	606,129	436,261

The capital commitments are expected to be settled within one year.

32 CONTINGENCIES

On 9 January 2004, Conghua Construction Engineering Ltd. (從化市建總建築工程有限公司), a constructor, commenced litigation against Guangzhou Jinrun Food Co., Ltd ("Guangzhou Jinrun"), a Predecessor Entity claiming repayment of outstanding construction costs and construction deposits totalling RMB3,764,000 in connection with certain construction contracts carried out by the constructor during the period.

The directors considered that payment was made to the constructor in accordance with the terms set out in the relevant contracts but the constructor did not complete the construction in accordance with the requirements set out in the contracts. Counter claim was made against the constructor for compensation of RMB600,000 together with the related legal costs.

The directors are of opinion that as the case is at the preliminary stage it is not possible to estimate with reasonable certainty the outcome of the case at this stage and no provision has been made for the years ended 31 December 2004 and 2005 in respect of the claim.

The Group is also involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of the directors, the ultimate disposition of these matters will not have a material adverse effect on the Group's financial position, results of operations, or liquidity.

33 RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005, transactions with the following parties are considered as related party transactions.

Name of party

Jiangsu Yurun Food Group
江蘇雨潤食品集團

Baiyin Yurun Meat Product Co., Ltd. ("Baiyin Yurun")
白銀雨潤肉類食品有限公司

Beijing Yurun Food Co., Ltd. ("Beijing Yurun Food")
北京雨潤食品有限公司

Fuyang Wangrun Food Company Limited ("Fuyang Wangrun")
阜陽旺潤食品有限公司

Guangzhou Jinrun
廣州錦潤

Jiangsu Wangrun
江蘇旺潤

33 RELATED PARTY TRANSACTIONS (CONTINUED)

Name of party (Continued)

Liaoning Kaiyuan Yurun Meat Product Co., Ltd. (“Kaiyuan Yurun”)
遼寧省開原市雨潤肉食品有限公司

Nanjing Yurun Food Joint Stock Co., Ltd. (“Yurun Stock”)
南京雨潤食品股份有限公司

Neijiang Yurun Meat Product Co., Ltd. (“Neijiang Yurun Product”)
內江雨潤肉食品有限公司

Anhui Furun Meat Processing Co., Ltd. (“Anhui Furun”)
安徽省福潤肉類加工有限公司

Guangyuan Furun Meat Product Co., Ltd. (“Guangyuan Furun Meat Product”)
廣元福潤肉類食品有限公司

Handan Furun Meat Product Co., Ltd. (“Handan Furun”)
邯鄲市福潤肉類食品有限公司

Jiangsu Furun Meat Processing Co., Ltd. (“Jiangsu Furun”)
江蘇福潤肉類加工有限公司

Jiangsu Furun Meat Processing Factory (“Jiangsu Furun Factory”)
江蘇省東海福潤肉類加工總廠

Kaifeng Furun Meat Product Co., Ltd. (“Kaifeng Furun”)
開封福潤肉類食品有限公司

Kaiyuan Furun Meat Product Co., Ltd. (“Kaiyuan Furun”)
開原市福潤肉類食品有限公司

Sichuan Furun Meat Product Co., Ltd. (“Sichuan Furun”)
四川省福潤肉類食品有限公司

Suzhou Furun Meat Product Co., Ltd. (“Suzhou Furun”)
宿州福潤肉類食品有限公司

Harbin Popular Meat-Packing Group Co., Ltd. (“Harbin Popular”)
哈爾濱大眾肉聯集團有限公司

Anhui Xuerun Meat Product Co., Ltd. (“Anhui Xuerun”)
安徽省雪潤肉食品有限公司

33 RELATED PARTY TRANSACTIONS (CONTINUED)

Name of party (Continued)

Anhui Yurun Group Co., Ltd. (“Anhui Yurun”)
安徽雨潤食品集團有限公司

Anhui Enbi Protein Co., Ltd. (“Anhui Enbi”)
安徽恩彼蛋白質有限公司

Anqing Furun Poultry Product Co., Ltd. (“Anqing Furun”)
安慶福潤禽業食品有限公司

Beijing Yurun Dihua Property Development Co., Ltd. (“Beijing Dihua”)
北京雨潤地華置業有限公司

Huangshan Songpa Golf and Club House Co., Ltd. (“Huangshan Songpa”)
黃山松柏高爾夫鄉村俱樂部有限公司

Jiangsu Dihua Real Estate Development Co., Ltd. (“Jiangsu Dihua”)
江蘇地華房地產發展有限公司

Anhui Yurun Dihua Property Development Co., Ltd. (“Anhui Dihua”)
安徽雨潤地華置業發展有限公司

Ma’an Shan Shi Dangtu Xian Diyi Construction Co., Ltd. (“Dangtu Diyi”)
馬鞍山市當涂縣帝益建設工程有限公司

Nanjing Diyi Trading Company Limited (“Nanjing Diyi”)
南京帝益貿易有限公司

Nanjing Yurun Commercial Management Co., Ltd. (“Nanjing Yurun Commercial”)
南京雨潤商業管理有限公司

Nanjing Yurun Construction Engineering Co., Ltd. (“Nanjing Yurun Construction”)
南京雨潤工程建築有限公司

Fuxinda Investments Co., Ltd. (“Fuxinda Investments”)
富信達投資發展有限公司

Jiangsu Fengrun Food Co., Ltd. (“Fengrun”)
江蘇豐潤食品有限公司

Donghai Farm (“Donghai Farm”)
東海養殖場

33 RELATED PARTY TRANSACTIONS (CONTINUED)

Name of party (Continued)

Liaocheng Furun Poultry Product Co., Ltd. ("Liaocheng Furun")
聊城市福潤禽業食品有限公司

Dujiangyan Furun Meat Processing Co., Ltd. ("Dujiangyan Furun")
都江堰福潤肉類加工有限公司

Guilin Furun Meat Processing Co., Ltd. ("Guilin Furun")
桂林福潤肉類食品有限公司

Hunan Lixian Furun Meat Food Co., Ltd. ("Lixian Furun")
湖南澧縣福潤肉類食品有限公司

Xinyu Furun Meat Food Co., Ltd. ("Xinyu Furun")
新餘福潤肉類食品有限公司

Itoham
伊藤

The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Mr. Zhu Yicai is the director and beneficial shareholder of the Company and also has beneficial interest in the related parties.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) *Significant related party transactions — Recurring*

(i) Sales and purchases of raw materials and finished goods:

	2005 RMB'000	2004 RMB'000
Sales of meat and by-product		
Anhui Xuerun	18,033	23,661
Anhui Enbi	2,379	1,670
Total	20,412	25,331
Sales of raw materials		
Anhui Xuerun*	6,896	14,755
Purchases of raw materials		
Anqing Furun	5,175	8,419
Liaocheng Furun	6,342	9,057
Total	11,517	17,476
Purchases of finished goods		
Anhui Xuerun**	53,013	39,398

* The cost of sales of raw materials to Anhui Xuerun and the deemed distribution fee amounted to RMB6,716,000 and RMB180,000 respectively.

** The related sales of finished goods purchased from Anhui Xuerun and the deemed distribution fee amounted to RMB54,621,000 and RMB1,590,000 respectively.

(ii) Lease of property, plant and equipment and land use rights

Pursuant to the Reorganisation, certain property, plant and equipment and land use rights owned by the Predecessor Entities with an aggregate net book value totalling RMB290,139,000 and RMB195,635,000 during the year ended 31 December 2005 were not transferred to the Group but were leased to the Group under finance leases (notes 15 and 24) and operating leases (note 16) respectively.

The rental for the year ended 31 December 2005 amounted to RMB14,385,000.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) *Significant related party transactions — Recurring (Continued)*

The independent non-executive directors of the Company are of the opinion that the above transactions with the related parties were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(iii) Use of property, plant and equipment of the Predecessor Entities.

During the year, certain Predecessor Entities made available their properties with a carrying value of RMB19,437,000 as at 31 December 2005 to the Group's use. No amount is paid by any of the Group companies.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) *Significant related party transactions — Non-recurring*

(i) Particulars of significant transactions between the Group and the related parties during the year ended 31 December 2005 are as follows:

	2005 RMB'000	2004 RMB'000
Sales of meat and by-product		
Nanjing Yurun Commercial	10,635	10,402
Xinyu Furun	—	1,373
Others	1,110	337
Total	11,745	12,112
Sales of raw materials		
Nanjing Yurun Commercial	12	901
Others	226	167
Total	238	1,068
Purchases of raw materials		
Anhui Xuerun	433	1,755
Guilin Furun	6,703	32,307
Lixian Furun	2,437	44,232
Xinyu Furun	3,664	19,889
Others	64	9
Total	13,301	98,192
Purchases of machinery		
Jiangsu Yurun Food Group	—	14,617
Nanjing Jinfurun	—	6,810
Total	—	21,427

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) *Significant related party transactions — Non-recurring (Continued)*

(ii) Included in the balances as set out in note 33(c) are short-term advances made by the Group to companies controlled by directors and shareholders of the Company.

The maximum balances of which during the year ended 31 December 2005 are as follows:

	2005 RMB'000	2004 RMB'000
Jiangsu Yurun Food Group	1,557,458	1,301,892
Nanjing Diyi	78,122	86,834
Anqing Furun	11,242	11,251
Anhui Xuerun	169,793	169,793
Beijing Dihua	33,500	33,500
Nanjing Yurun Commercial	11,937	9,905
Jiangsu Dihua	26,651	21,644
Nanjing Yurun Construction	—	1,750
Huangshan Songpa	1,018	1,004
Dujiangyan Furun	127	127
Fengrun	269	3,285
Fuxinda Investments	—	500
Guilin Furun	3,631	3,631
Lixian Furun	23,086	23,084
Xinyu Furun	35,454	35,454
Others	3,696	3,162

(iii) As at 31 December 2004, certain bank and other loans totalling RMB847,400,000 were guaranteed by Jiangsu Yurun Food Group. This guarantee was released during the year ended 31 December 2005.

(iv) For the year ended 31 December 2005, bills discounted expenses totalling RMB9,032,000 (2004: RMB40,035,000) of the Group were borne by Jiangsu Yurun Food Group. During the year ended 31 December 2005, the relevant proceeds from discounted bills totalling RMB508,936,000 (2004: RMB1,487,552,000) were on-lent to Jiangsu Yurun Food Group.

(v) As at 31 December 2005, certain properties of the Group with an aggregate net book value of RMB12,832,000 (2004: RMB65,693,000) were pledged against bank loans totalling RMB20,000,000 (2004: RMB211,000,000) of the Predecessor Entities.

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned. The above transactions had been discontinued during the year ended 31 December 2005.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) *Amounts due from related companies*

	2005 RMB'000	2004 RMB'000
Trade		
Anhui Xuerun	5,260	5,941
Itoham	464	—
Nanjing Diyi	—	6,118
Anqing Furun	—	45
Fengrun	—	25
Anhui Dihua	—	22
Nanjing Yurun Commercial	—	7,517
Xinyu Furun	—	545
Others	—	1,501
Sub-total	5,724	21,714
Non-trade		
Jiangsu Yurun Food Group	—	887,968
Anhui Xuerun	—	163,852
Nanjing Diyi	—	71,947
Beijing Dihua	—	33,500
Anqing Furun	—	11,197
Fengrun	—	244
Dujiangyan Furun	—	127
Jiangsu Dihua	—	21,644
Nanjing Yurun Commercial	—	2,388
Huangshan Songpa	—	1,004
Guilin Furun	—	3,631
Lixian Furun	—	23,083
Xinyu Furun	—	34,909
Others	—	1,539
Sub-total	—	1,257,033
Total	5,724	1,278,747

Amounts due from related companies are unsecured, interest free and are expected to be recovered within one year. There was no impairment made against these amounts at 31 December 2005. Except for the amount due from Jiangsu Yurun Food Group as at 31 December 2004, the amounts due from related parties are guaranteed by Jiangsu Yurun Food Group.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) *Amounts due to related companies*

	2005 RMB'000	2004 RMB'000
Trade		
Anhui Enbi	684	—
Anhui Xuerun	3,561	13,694
Anqing Furun	429	9,141
Guilin Furun	—	12,151
Lixian Furun	—	21,270
Xinyu Furun	—	5,406
Liaocheng Furun	418	2,841
Sub-total	5,092	64,503
Non-trade		
Nanjing Diyi	—	41,236
Anhui Xuerun	—	152,729
Anqing Furun	—	29,539
Anhui Yurun	—	65,000
Anhui Enbi	—	993
Dujiangyan Furun	—	6,559
Fuxinda Investments	—	60,000
Guilin Furun	—	1,198
Lixian Furun	—	4,650
Xinyu Furun	—	49,523
Others	—	512
Sub-total	—	411,939
Total	5,092	476,442

Amounts due to related companies are unsecured, interest free and are expected to be repaid within one year.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) *Key management personnel remuneration*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other emoluments	3,216	1,667
Contributions to retirement benefit schemes	45	30
Total	3,261	1,697

Total remuneration is included in "personnel expenses" (see note 7(b)).

34 SUBSEQUENT EVENT

On 26 January 2006, Fuyang Furun, entered into an agreement with Henan Beixu Group Limited* (河南省北徐集團有限公司) for establishing a joint venture entity named Henan Yurun Beixu Meat Food Co., Ltd.* (河南雨潤北徐肉類食品有限公司), in which Fuyang Furun will own a 75% equity interest. The company will be engaged in slaughtering and production and sale of chilled and frozen pork.

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

35 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Company as at 31 December 2005 to be Willie Holdings Limited incorporated in BVI. This entity does not produce financial statements available for public use.

36 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Note 30 contains information about the assumptions relating to the fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassess these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

(ii) *Impairment of trade receivables*

The Group's management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassess the impairment of trade receivables at the balance sheet date.

(iii) *Depreciation*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements. Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective date (for annual financial statements covering periods beginning on or after)
Amendments to IAS 1 (August 2005)	"Capital disclosures"	1 January 2007
IFRS 7	"Financial instruments: Disclosure"	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.