China Yurun Food Group Limited
中國雨潤食品集團有限公司

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

Yurun BRAND new life

2007
Annual Report

Yurun BRAND

Contents

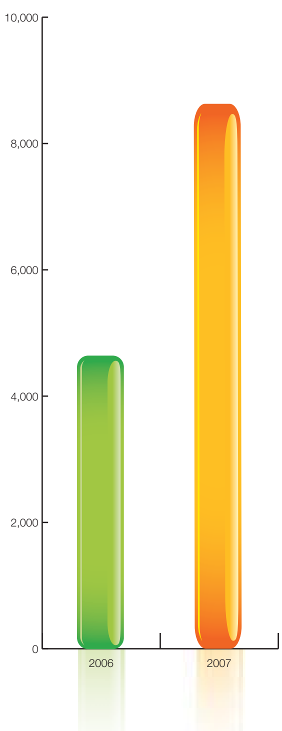
The Fourth International Meat Secretariat (IMS) World Pork Conference
September 2007, Nanjing

Financial Highlights

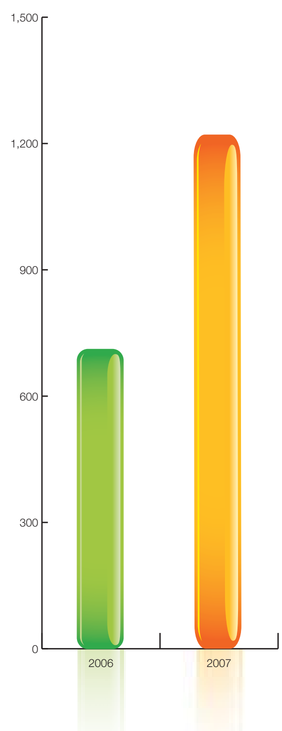
	2007 (HK$ in million)	2006 (HK$ in million)	Growth
Turnover	**8,635**	4,621	86.9%
Gross profit	**1,220**	711	71.6%
Profit attributable to shareholders	**859**	481	78.7%
Diluted earnings per share (HK$)	**0.582**	0.331	75.8%

- The Group's turnover has increased by 86.9%, demonstrating a strong growth momentum.
- Gross profit and profit attributable to shareholders have risen sharply with respective growth rate reached 71.6% and 78.7%.
- Diluted earnings per share performed satisfactorily with a growth rate of 75.8%.

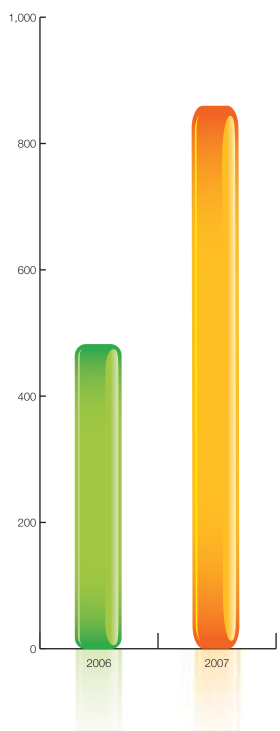
Turnover HK$ in million



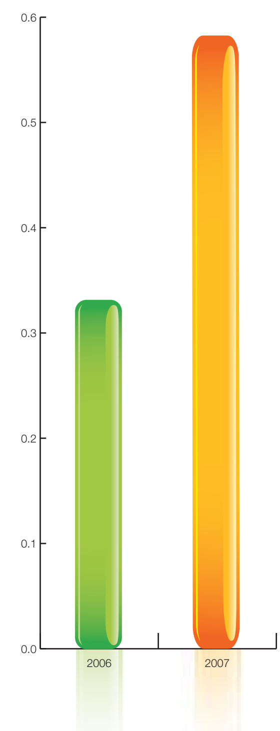
Gross Profit HK$ in million



Profit Attributable to Shareholders HK$ in million

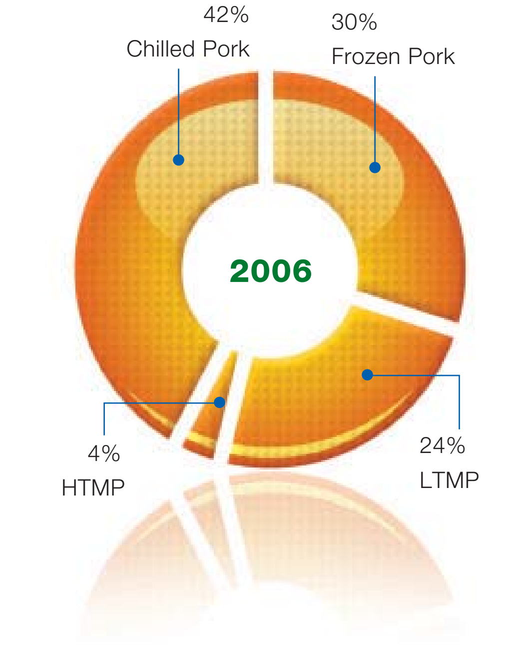


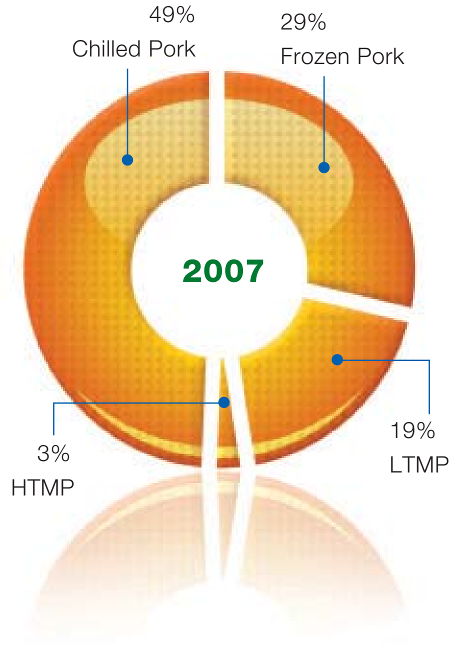
Diluted Earnings per Share (HK$)



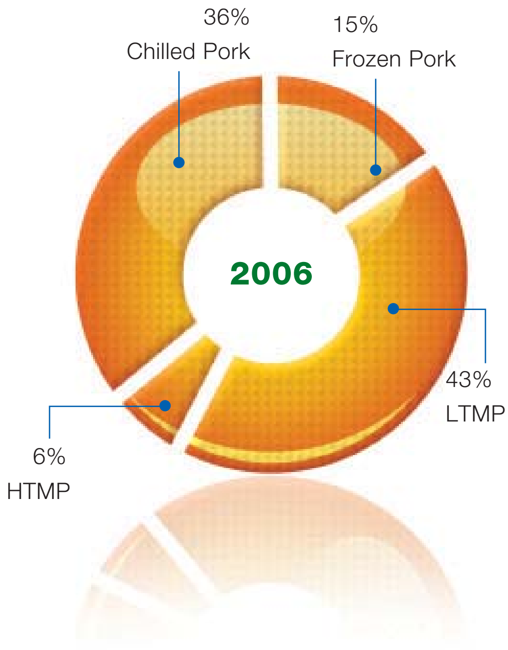
Financial Highlights

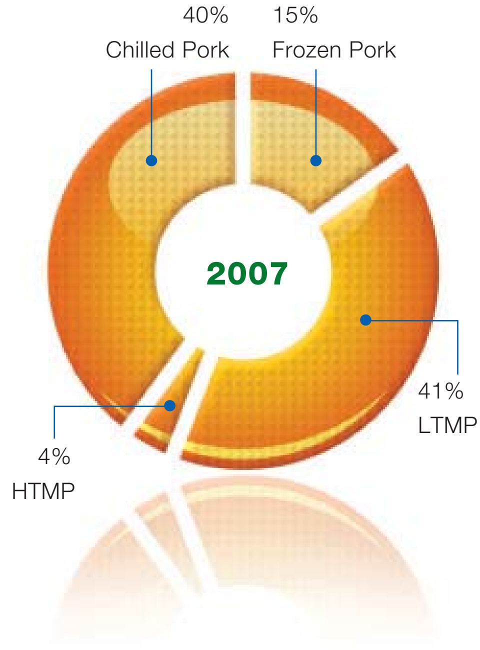
CONTRIBUTION TO TURNOVER BY PRODUCT LINES (BEFORE INTER-SEGMENT ELIMINATION)





CONTRIBUTION TO GROSS PROFIT BY PRODUCT LINES (BEFORE INTER-SEGMENT ELIMINATION)





Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Yicai *(Chairman)*
Zhu Yiliang *(Chief Executive Officer)*
Zhang Yuanfei *(Chief Operating Officer)*
Feng Kuande
Ge Yuqi

Non-executive Directors

Jiao Shuge (*alias* Jiao Zhen)
Sun Yanjun

Independent Non-executive Directors

Zheng Xueyi
Kang Woon
Gao Hui

AUDIT COMMITTEE

Gao Hui *(Chairman)*
Jiao Shuge (*alias* Jiao Zhen)
Kang Woon

REMUNERATION COMMITTEE

Kang Woon *(Chairman)*
Gao Hui
Zhu Yicai

NOMINATION COMMITTEE

Kang Woon *(Chairman)*
Gao Hui
Zhu Yicai

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lee Wing Sze, Rosa *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Zhu Yicai
Lee Wing Sze, Rosa

AUDITORS

KPMG

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Construction Bank Corporation
Bank of China Limited
Industrial and Commercial Bank of China Limited
Huishang Bank

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM11
Bermuda

HEAD OFFICE

10 Yurun Road
Jianye District
Nanjing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

53rd Floor
Bank of China Tower
1 Garden Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law

Norton Rose Hong Kong

As to Bermuda law

Conyers Dill & Pearman

STOCK CODE

1068

WEBSITE

www.yurun.com.hk

The Group's Sunshine Series advertising on CCTV

> "The Group's turnover was **HK$8.635 billion** and the profit attributable to shareholders was **HK$859 million**, an increase of **86.9%** and **78.7%** of the previous year, respectively"

Zhu Yicai
Chairman

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries, (collectively referred to as the "Group"), I am pleased to present to you the annual results of Yurun Food for the year ended 31 December 2007 ("Review Period").

BUSINESS REVIEW

In recent years, China has always been one of the world's fastest growing economies. According to the National Bureau of Statistics of China, on the back of robust macro-economic growth and increasing income of urban and rural residents, national consumer spending witnessed continued hikes. At the same time, the expanding middle-class population also created significant demand for fresh, nutritious and delicious high quality branded food. In 2007, disposable income per capita of urban population reached RMB13,786, up 17.2% over that of 2006, surpassing China's strong GDP growth of 11.4% over the same period. The strong growth momentum in national economy as well as people's wealth reflects a huge potential in consumer spending in China. Yurun Food, as the synonym of elite quality and leading meat brand products in China, is fully confident in the mid to long term prospect of domestic market.

As mentioned in our 2007 Interim Report, the Chinese pork production industry experienced a more challenging business environment with various opportunities. Since the beginning of 2007, domestic hog prices went up drastically as a result of a short-term imbalance between domestic hog supply and demand, coupled with a substantial price increase for major feed stocks which drove up the costs of raising hogs. The pattern continued in the second half of 2007 and set new record high for hog price. The average domestic hog wholesale price in 2007 was 63.5% higher than that in 2006.

As for the meat production market, after the Chinese government further strengthened the supervision over the safety of meat products, the awareness of the domestic consumers about food safety has significantly enhanced. The urban residents have gradually shifted their habits of buying meat from traditional wet market to "hygienic and safe" meat produced by large industrialised meat processors through modern channels such as hypermarkets and convenient stores. The modern and urbanised young families also create new market demand for meat products.

Despite the ever-changing business environment, we could manage the rise in the procurement cost of hog and sustain the momentum of continuous growth in our operating and financial results in 2007 through our initiatives such as the optimistic scale of production facilities, expansion of diversified distribution channels, further development of high-margin new products, and timely adjustments of product prices.

During 2007, the Group continued to expand its market share in China. We had the largest market share in sales to large scale retailers among low temperature meat products ("LTMP") producers in China for six consecutive years and became the second largest hog slaughtering enterprise in China. We launched numerous marketing campaigns by advertising on China Central Television ("CCTV") and various mobile media to ensure that our LTMP and chilled pork under the flagship brand, "Yurun", the two major drivers for our revenue and profit growth, were firmly established among consumers. Through acquisitions of the plants in Sichuan, Jiangxi, Hunan, Hubei and Jilin, as well as the upgrading of existing production facilities, we continued to enhance our production capacity and perfect our national network of production bases strategically. We speeded up the construction of new plants in the Northeastern China and the brown-field projects in the Eastern China, which would fully prepare ourselves for future expansion in production capacity and for capturing growing market demands.

Chairman's Statement

During the Review Period, we had excellent financial performance through efforts of our management and staff to achieve the anticipated growth in business and earnings. The Group's turnover was HK$8.635 billion and profit attributable to equity shareholders of the Company was HK$859 million, an increase of 86.9% and 78.7%, respectively. Diluted earnings per share for the year was HK$0.582. The Board has proposed a final dividend of HK 8 cents per share in return for the great supports from shareholders.

Yurun Food's growth mainly derived from its strategic regional landscape, well-established supply and distribution channels, strong edge in research and development and our superior brand strength. In response to the unfavourable market environment, the Group timely realigned its product mix and pricing, focusing on the mid to high end markets, leveraging on its extensive sales and distribution network and target-oriented advertising and promotion campaigns to boost its competitiveness, all these enabled it to achieve the better-than-expected results under such a challenging business environment in 2007.

PROSPECT

We expect the pork's price to remain at a relatively high level in general in year 2008 with a possible slight adjustment in the second half of 2008. As a result of the soaring meat price in 2007, many pig farmers started to raise breeding pigs and expand their capacities. The first pig crop from these new breeds is expected to be introduced to the market in the second half of 2008, stepping up the supply.

The Chinese Government has introduced various measures to encourage pig farming in order to ease the shortage of hog supply and to promote the healthy growth of the hog farming industry. These include, among other things, subsidising on breeder pig insurance, strengthening epidemic prevention and financial support. In addition, the Chinese Government has introduced a series of initiatives accelerating the industry adjustment and phasing out small-scale sub-standard meat production factories of poor quality and inferior hygiene level. All these favourable factors in the long run help maintaining the rapid growth of large-scale meat product manufacturers, such as Yurun Food, which are already equipped with scale merit, capabilities, brand recognition and high quality products. Besides, the Group will benefit from the ample growth opportunities and fruitful outcome to be brought by the industry development and market consolidation.

Yurun Food, as one of the largest meat product manufacturers in China, benefits from its strong brand recognition, nationwide production network, mature and efficient supply chain management, extensive sales and marketing channels as well as strong research and development capabilities of new products. Going forward, we will continue to take advantage of the growth opportunity brought by the changing consumption pattern of large and medium-sized cities in China. By advertising in the mainstream media, we will further strengthen the "Yurun" series brands as "Healthy, Quality, Delicious and High-end" in the market and achieve rapid sales growth of LTMP and chilled pork businesses in the next three to five years. On the backdrop of the expected consolidation in the meat processing sector towards an industry characterised with a reasonable concentration of large-scale and efficient enterprises, the Group will continue to further expand its both upstream and downstream capabilities via acquisitions, green field and brown field projects. At the same time, the Group will commit to industry upgrade and technological innovations for building up a solid foundation to meet the rapid growing demand. In addition, apart from its continuous effort to enhance its value-added capability and sales forces, the Group will pursue vigorously the mid to high end markets and continue to develop new products and customer base, extending the scope and depth of market coverage. The Group will also leverage its market-oriented pricing mechanism to ensure a generally stable level of gross profit margin.

ACKNOWLEDGEMENT

Yurun Food will continue to establish itself as one of China's leading brand meat product suppliers. On behalf of the Board, I would like to extend my gratitude to our shareholders, customers and business partners for their unremitting support and trust. My gratitude also goes to our excellent management team and staff who have dedicated to and will continue to contributing to the Group's success.

The Group will make its every endeavour to adhere the motto of "food industry is an ethical industry" and maintain its good reputation as the most outstanding food enterprise in China, so as to further enhance its leading position in the Chinese meat production market and bring greater returns to our shareholders.

Zhu Yicai
Chairman
Hong Kong
9 April 2008

Characterised by fresh, tasty, nutritious and convenient, our branded products are popular among the modern and urbanised young families in China

Management Discussion and Analysis

INDUSTRY REVIEW

2007 has been a challenging year for both the meat processing enterprises and the pig slaughtering enterprises.

The short-term imbalance between domestic hog supply and demand, coupled with a substantial price increase for feed stocks, domestic hog prices further increased in 2007. According to the Ministry of Agriculture, the national average domestic hog price was approximately RMB11.84 per kg in 2007, representing an increase of 63.5% over RMB7.24 per kg of the preceding year. The supply and demand gap of hogs and the continuous increase in hog price have put higher pressure on the overall management and operation on meat processors in their supply chain management, pricing ability and cost control.

In the second half of 2007, given the sharp rise in Consumer Price Index (CPI), the Chinese government put forward the guidance on supply control and price stabilisation. Following such guidance, the National Development and Reform Commission put into force the "Implementation of temporary measures for price-Intervention on some important commodities and services" in January 2008, which imposed temporary price control on certain important commodities and services in the country. This also included the requirement of return filings on the price adjustment of pork and pork products by the retailers and wholesalers.

To ensure a steady supply of hogs and promote the healthy development of the hog and pork product market, the Chinese government further strengthened its administrative oversight of the industry, creating favourable environment and opportunities for the mid to long term development of the meat processors. In order to alleviate the supply pressure, as one of the measures to stabilise hog price, the Chinese government financially subsidised the farmers for hog breeding. Furthermore, in order to regulate the slaughtering industry to ensure an orderly development, the Chinese government continued the drafting of the "Administrative Provisions for Live Pig Slaughtering (Second Draft)" and "Food Safety Regulations", building a solid foundation for the standardisation and healthy advancement of the industry.

BUSINESS REVIEW

Despite 2007 being a challenging year, the Group maintained a robust growth by leveraging on its established advantages, such as its acclaimed brand and market positioning, focusing on the mid to high end markets, flexible pricing strategies, diversified distribution channels, outstanding and experienced management team and the flexible and solid capacity expansion strategies. LTMP and chilled pork were the main contributors to the Group's growth, the sales of which went up significantly compared to those of the preceding year.

Management Discussion and Analysis

During the period under review, the Group continued to expand its production capability, enhance its production network, and has successfully increased its supply to meet the rapidly growing market demand for the Group's products. Leveraging on the strong brand recognition and mature operational system, the Group successfully expanded production capacity and market penetration through both organic growth such as green and brown field projects, and mergers and acquisitions. In 2007, the Group successfully acquired six factories in Jiangxi, Hunan, Sichuan, Hubei and Jilin. These strategic acquisitions allowed the Group to further enhance its hog procurement network and market coverage. During the year, the Group also launched many marketing campaigns by advertising on CCTV and various mobile media to ensure that its flagship "Yurun" brand is firmly established among consumers.

On the back of a nationwide production network, efficient supply chain management, flexible sales and marketing strategies, as well as sound management and operation capabilities, the Group was able to maintain its live hogs procurement capability and strong pricing power, which catalyse its business growth while ensuring stable margins, amid the challenging market condition where the hog purchase price increased continuously and the supply of hogs was tight.

Management Discussion and Analysis

Sales and Distribution

In order to further strengthen the Group's profitability, apart from concentrating on developing products with higher profit margins and enriching product mix as always, the Group continued to build on the flagship "Yurun" brand with more advertising and promotion efforts which helped the Group to achieve outstanding results in LTMP and chilled pork businesses amid the competitive environment.

With respect to the target markets and distribution channels, the Group continued to focus more on direct sales supplemented with distribution through independent distributors. By stepping up co-operation with supermarkets and chain stores, the Group has enhanced its sales through these direct channels. Yurun Food also optimised the product distribution network to further extend its reach to existing and potential customers in the domestic consumer market. During the year, the Group has sold its products to over 300 cities in China. At the same time, the Group further strengthened its co-operation with high-class hotels and catering chains so as to enhance the profitability by increasing the sales of products which have higher margins.

In 2007, sales of chilled pork were HK$4.677 billion, an increase of 124.6% over that of 2006, which represented 49.5% (2006: 42.2%) of the Group's total turnover before inter-segment elimination and 63.1% (2006: 58.6%) of the Group's total turnover in its upstream business. Chilled pork continued to act as the key driver for the Group's business growth. During the same period, the Group realised a LTMP sales of HK$1.753 billion, an increase of 51.2% over that of 2006, which represented 18.6% (2006: 23.5%) of the Group's total turnover before inter-segment elimination and 86.4% (2006: 83.8%) of the total turnover in downstream meat processing business.

Production Facilities and Production Capacity

To fulfill the booming market demands of the Yurun brand products, the Group continued to expand its capacities for chilled and frozen meat production. By the end of 2007, the Group's annual slaughtering capacity exceeded 14 million heads, an increase of 3.85 million heads from 2006 year end.

In the downstream business, the Group has been focusing on supplementing market coverage, reducing bottlenecks and upgrading key production facilities. Annual production capacity of its downstream meat processing business increased by 50,000 tons from the end of 2006 to 218,000 tons as at the end of 2007.

As a result of increased geographical coverage and rapid sales growth, the Group managed to increase the utilisation rate of downstream meat processing business amid fast production capacity expansion. In 2007, the weighted average utilisation rate of downstream meat processing business has increased from 57% of last year to 62% in 2007. During the year, the shortage of live hog supply in China slightly affected the performance of the Group's upstream business. The utilisation rate of the upstream slaughtering business for the year was 57%, representing a slight decrease as compared to 66% of 2006.

Product Quality and R&D

Quality has been the Group's most important management objective since its establishment. Internal quality control procedures are properly set up and implemented at each process of procurement, production, sales and logistics, gaining us a good reputation among consumers and in the industry.

The Group pays great attention to research and development ("R&D") of high-end products. It has an R&D team of over 300 members focusing on the R&D of competitive new products to foster a new meat consumption trend. In 2007, the Group successfully launched approximately 190 new products across China. These products were well received by the market as they were fresh, tasty, nutritious and convenient. The Sunshine series featuring energetic were particularly popular among young consumers.

FINANCIAL REVIEW

Benefited from the significant increase in selling price and rapid growth in sales volumes, the Group achieved a turnover of HK$8.635 billion in 2007, an increase of 86.9% over last year's HK$4.621 billion. The Group also recorded a net profit of HK$0.859 billion (2006: HK$0.481 billion), up 78.7% from the previous year. Diluted earnings per share was HK$0.582, representing an increase of 75.8% when compared with that of last year of HK$0.331.

Management Discussion and Analysis

TURNOVER

Processed Meat Products

By the end of 2007, the Group produced approximately 1,000 different types of processed meat products. Benefited from the goodwill of its strong brands and effective marketing strategy, LTMP sales volume in 2007 has increased by 26.2%. Our processed meat business enjoyed another good year due to the timely adjustments of product prices, optimisation of product mix and the launching of new products with higher profit margins. The turnover of LTMP in 2007 reached HK$1.753 billion, an increase of 51.2% from that of the last year of HK$1.159 billion. LTMP was again the major revenue driver in the processed meat business accounting for approximately 86.4% (2006: 83.8%) of the total turnover in this business. In 2007, the turnover of high temperature meat products ("HTMP") was HK$277 million (2006: HK$225 million), accounting for approximately 13.6% (2006: 16.2%) of the total turnover in the processed meat business.

Chilled and Frozen pork

Despite the relatively tight supply of hogs, the Group's slaughtering volume in 2007 enjoyed a sustained growth on the back of the Group's extensive network and strong presence across China. Meanwhile, turnover in upstream business went up significantly by 108.8%. This increase was mainly due to the Group's market-oriented pricing strategy by adjusting upstream prices accordingly when hog prices rose enormously.

In 2007, the Group realised a total sales of chilled pork and frozen pork of 523,000 tons, representing an increase of 17.9% over that of the previous year. The total sales generated from the upstream business (before inter-segment elimination) reached HK$7.413 billion. Amongst which, revenue generated from the

chilled pork business was approximately HK$4.677 billion, representing an increase of 124.6% from that of the previous year, representing 63.1% (2006: 58.6%) of the total revenue of upstream business with an annual sales of approximately 300,000 tons in volume, 23.5% up from that of the previous year. Sales of frozen pork came to a total of HK$2.736 billion, representing 36.9% (2006: 41.4%) of the total sales in the upstream business, with a sales volume of 223,000 tons, an increase of 11.1% from that of 2006.

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's gross profit increased by 71.6% from HK$711 million in 2006 to HK$1.220 billion in 2007; whereas the Group's gross profit margin slightly decreased by 1.3 percentage points from 15.4% in 2006 to 14.1% in 2007. This was mainly due to the increase in sales proportion in the upstream business which traditionally enjoys a relatively lower profit margin than that of the downstream business.

For the downstream meat processing business, the gross profit margin for LTMP was 28.4%, an increase of 2.3 percentage points compared with that of the previous year, whereas the gross profit margin for HTMP was 16.7%, 2.6 percentage points lower than that of the preceding year. Overall gross profit margin for the downstream business was 26.8%, an increase of 1.8 percentage points from last year of 25.0%. The increase was primarily brought on by the Group's ability to increase the product price, as well as enhanced sales contribution from high margin products.

For the upstream raw pork business, the gross profit margin of chilled and frozen pork was 10.7% and 6.6% respectively, a slight drop of 1.7 and 0.8 percentage points respectively compared with those of the previous year. The overall gross profit margin was 9.2%, representing 1.1 percentage points lower than that of the preceding year of 10.3%. This is attributable to the Group's ability to stick to the market-based pricing strategy which helps to stabilise the gross profit margin despite significant changes in the hog price during the year.

OTHER OPERATING INCOME

Other operating income mainly includes government subsidies and negative goodwill. During the year, the Group had other operating income of HK$191 million (2006: HK$89 million), primarily due to the negative goodwill of RMB50 million (equivalent to approximately HK$50 million) resulted from acquisition of the business operations of Huaxin Food Factory in Jinan, Shandong province and the subsidies granted by the Chinese government to the Group as an incentive to its business development.

OPERATING EXPENSES

Operating expenses include distribution expenses, administrative expenses and other operating expenses. In 2007, the operating expenses of the Group were HK$540 million, an increase of 65.6% from last year's HK$326 million which was largely due to the Group's promotion efforts through mainstream and mobile media channels such as CCTV, higher transportation costs due to sales volume growth, and increased administrative expenses due to the staff options granted in late 2006. Operating expenses during the year represented 6.2% of the Group's turnover, a decrease of 0.9 percentage point compared to 7.1% of last year. It clearly demonstrated the Group's ability to enjoy the economies of scale while expanding its business rapidly.

OPERATING PROFIT

In 2007, the Group's operating profit was HK$872 million, up 83.6% from that of last year of HK$475 million.

NET FINANCING INCOME

The Group's net financing income for 2007 was HK$41.22 million whereas the same for 2006 was HK$11.89 million. During the year, the Group recorded a significant increase of HK$48 million in the foreign exchange gain. On the other hand, financial expenses also increased because of the increase in bank loans and the syndicated loan raised during the year.

INCOME TAX

In 2007, the total income tax of the Group was HK$51.19 million (2006: HK$5.50 million), with an effective tax rate of 5.6% (2006: 1.1%). The primary reason for the increase was that certain subsidiaries of the Group in the processed meat segment started to pay enterprise income tax in 2007 under the preferential tax policy of "exemption for two years and 50% tax reduction for the subsequent three years" applicable for foreign investment enterprises. However, as most of our slaughtering subsidiaries were entitled to relevant tax preferential treatment specialised for State-Level Agriculture Leading Enterprise, such subsidiaries were still exempted from corporate income tax.

NET PROFIT

Taking into accounts of all the above factors, the Group's net profit for 2007 was up by 78.7% to HK$859 million from 2006 of HK$481 million. Net profit margin for 2007 was 10.0%, comparable to the preceding year of 10.4%.

FINANCIAL RESOURCES

The Group's major financial resources were cash inflow generated from operating activities; proceeds from the placement of new shares, bank loans and syndicated loan during the year also contributed significantly to our reserves for mid and long term growth. Cash inflow from operating activities during the year amounted to HK$748 million, with cash balance of HK$1,966 million as at 31 December 2007, representing an increase of HK$1,122 million compared with that of 2006. The October 2007 new shares placement added approximately HK$771 million to the Group's cash flow; whereas other bank loans and the November 2007 syndicated loan all together added another HK$1,257 million.

As at 31 December 2007, the Group had HK$1.094 billion outstanding loans. The Group has adhered to its prudent financial management policy. Whilst some funding has been used for strategic acquisitions and investments in production facilities during the year, sufficient working capital was ensured for day to day operating activities and other funding requirements.

ASSETS AND LIABILITIES

As at 31 December 2007, the Group's total assets and total liabilities were HK$6.377 billion and HK$2.047 billion respectively, representing an increase of HK$3.226 billion and HK$1.356 billion compared with those as at 31 December 2006 respectively.

As at 31 December 2007, equity attributable to equity holders of the Company was HK$4.139 billion. This represents an increase of HK$1.690 billion compared with that of HK$2.449 billion as at 31 December 2006.

As at 31 December 2007, certain properties, land use rights and bank deposits with a carrying amount of HK$183 million (2006: Nil) were pledged against bank loans.

As at 31 December 2007, the Group's gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders excluding minority interests) was 23.5%, an increase of 14.9 percentage points over 8.6% as at 31 December 2006, mainly due to the bank loans and syndicated loan totalling HK$1.257 billion drawn during the year.

CAPITAL COMMITMENT

Details of the Group's capital commitment as at 31 December 2007 are set out in note 36 to the financial statements.

FOREIGN EXCHANGE RISKS

As the Group's cash flow from operations is mainly denominated in Renminbi, while our assets held and liabilities assumed are mostly denominated in Renminbi and US dollar respectively, the impact of continued Renminbi appreciation lately on the Group was positive. In addition, the Group did not use any financial instrument for hedging purposes during the year.

HUMAN RESOURCES

As at 31 December 2007, the Group had 14,328 (2006: 11,519) employees in the PRC and Hong Kong. Total staff costs for the year were HK$267 million, accounting for 3.1% of the Group's turnover (2006: HK$167 million, accounting for 3.6% of the Group's turnover).

The Group offered competitive remunerations and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with industry and market practice, the Group also offered performance-based bonuses and a share option scheme to encourage and reward the employees' contributions to the Group's results and business development. In addition, the Group allocated resources for providing continuing education and training for management and employees to help improve their skills and knowledge continuously.

By stepping up co-operation with supermarkets and chain stores, the Group has enhanced its sales through these direct channels


Daily Area
Daily Area
熟肉制品
Meat

Biographical Details of Directors and Senior Management

Mr. Zhu Ycai, aged 44, has been the Chairman of the Company and an executive Director since April 2005. He also holds directorships in various subsidiaries of the Company and is a director of Willie Holdings Limited, the controlling shareholder of the Company. Mr. Zhu founded the Group in 1993 and has 15 years of experience in the industry. He studied economic management at Hefei Industrial University and in 2003, he participated in a CEO training course at China Europe International Business School.

While contributing significantly to the food processing industry in China, Mr. Zhu is keen on serving the community. Mr. Zhu is the vice president of Nanjing Chamber of Commerce, the president of Nanjing Federation of Industry and Commerce, and a vice-chairperson of China Society for the Promotion of Guangcai Program.

Mr. Zhu has been elected as a Deputy to the National People's Congress for two consecutive years of 2003 and 2008, taking a proactive role in giving constructive ideas.

Mr. Zhu Yiliang, aged 42, has been an executive Director since April 2005 and the Chief Executive Officer of the Company since April 2007. He also holds directorships in various subsidiaries of the Company. Mr. Zhu joined the Group in 1996. Mr. Zhu is overall responsible for the management of the Group's processed meat products business. Mr. Zhu is a senior engineer in the industry with 12 years of relevant experience. Apart from his working relationship with Mr. Zhu Yicai, the Chairman of the Company, Mr. Zhu has no family tie with Mr. Zhu Yicai.

Mr. Zhang Yuanfei, aged 42, has been an executive Director since April 2005 and the Chief Operating Officer of the Company since April 2007. He also holds directorships in various subsidiaries of the Company. Mr. Zhang joined the Group in 2000. Mr. Zhang is overall responsible for the human resources function of the Group. Mr. Zhang graduated from Heilongjiang College of Commerce and holds a Bachelor's degree in food science and engineering. He is also an engineer at China Meat Processing & Engineering Technology Research Centre. Mr. Zhang has 22 years experience in the industry.

Mr. Feng Kuande, aged 52, has been an executive Director and Vice President of the Company since April 2005. He also holds directorships in various subsidiaries of the Company. Mr. Feng is overall responsible for the management of Harbin Popular Meat Product Co., Ltd. and Harbin Popular Fresh Food Co., Ltd.. From April 2001 to December 2004, Mr. Feng has been the chairman and general manager of Harbin Meat Processing Factory ("Harbin Meat Factory"). He was the general manager of Harbin Meat Factory from October 1997 to April 2001 and the deputy factory manager of Harbin Meat Factory from January 1994 to October 1997. Mr. Feng has 14 years experience in the industry.

Mr. Ge Yuqi, aged 52, has been an executive Director and Vice President of the Company since April 2005. He also holds directorships in various subsidiaries of the Company. Mr. Ge is overall responsible for the investment and development plans for the Group. From June 1997 to August 2004, he had been working at Nanjing Yurun Meat Product Company and was responsible for the Development Department. Mr. Ge has 27 years experience in the industry.

Mr. Jiao Shuge (*alias* Jiao Zhen), aged 42, has been a non-executive Director since April 2005. Since August 2002, he has been the managing director of CDH China Fund L.P.. From December 1995 to August 2002, Mr. Jiao served as deputy general manager of the direct investment department for China International Capital Corporation Limited. Mr. Jiao was also a researcher at the Beijing Information and Country Research Institute from September 1989 to October 1995. Mr. Jiao obtained a Bachelor's degree in mathematics from Shandong University in 1986 and a Master's degree in engineering from the Astronautic Ministry of Industry Second Research Institute in 1989. He is currently a director of China Mengniu Dairy Company Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Biographical Details of Directors and Senior Management

Mr. Sun Yanjun, aged 38, is a managing director of Principal Investment Area of Goldman Sachs (Asia) L.L.C. ("Goldman Sachs"). Mr. Sun has been with Principal Investment Area of Goldman Sachs since May 2006 and he is responsible for private equity investments in the Greater China region. Prior to joining Goldman Sachs, Mr. Sun spent most of his career as an investment banker in the U.S., Hong Kong and China. Mr. Sun holds an MBA degree from University of Michigan and a Bachelor Degree from Renmin University of China.

Professor Zheng Xueyi, aged 54, has been an independent non-executive Director since April 2005. He is currently the department head of the Continuing Education Department and also a professor of the Department of Economics of Peking University. Prof. Zheng graduated from Peking University and obtained a Master's degree in economics in 1984 and in 1989, obtained a Doctorate degree in economics, both from Peking University.

Mr. Kang Woon, aged 45, has been an independent non-executive Director since April 2005. Since June 2007, Mr. Kang has been an independent non-executive Director of Anhui Conch Cement Company Limited. Mr. Kang is an attorney-at-law of the Supreme Court of the State of New York, and a member of the Law Society of England and Wales. He obtained a Doctor of Jurisprudence degree from the University of Texas in Austin, Texas.

Mr. Gao Hui, aged 39, has been an independent non-executive Director since April 2005. He is a certified public accountant and certified tax advisor. Since March 2001, he has been the chairman and general manager of Jiangsu Jinling Certified Public Accountants Company Limited and the general manager of Jiangsu Jinzhong Project Cost Valuation Company Limited. He was an officer of the audit department of Huaian Guoxin Certified Public Accountants in respect of foreign affairs from May 1997 to February 2001, the finance chief of Huaiyin Multi-business Training Centre from May 1994 to April 1997. Mr. Gao graduated from Jiangsu Radio and TV University specialising in finance and accounting.

Mr. Zhang Degang, aged 35, General Manager of Investment Department of the Group. Mr. Zhang joined the Group in July 2000. He obtained a Master's degree in economics from Anhui University in 2000 and was admitted as a PRC lawyer in 2003. Mr. Zhang has 8 years experience in the industry.

Mr. Zhao Ning, aged 40, is a senior engineer, registered food safety practitioner of the China National Food Industry Association and a member of the sub-committee on Meat, Poultry and Egg of the State Food Industry Standardisation Commission. Mr. Zhao has been the deputy general manager of the Processed Meat Business Division of the Group since May 2007. Mr. Zhao joined the Group in November 1996. He obtained a Bachelor's degree and a Master's degree in food engineering from the College of Food Science and Technology of Nanjing Agricultural University in July 1990 and 2004 respectively. Mr. Zhao has 12 years experience in the industry.

Mr. Zhang Ronghua, aged 35, has been assisting the Chief Executive Officer in the management of the Group's chilled and frozen pork business since December 2004. He graduated from the Department of Food Science and Engineering of Nanjing University of Economics with a Bachelor's degree in June 1997 and immediately joined the Group after graduation. Mr. Zhang has 11 years experience in the industry.

Miss Lee Wing Sze, Rosa, aged 33, is the Chief Financial Officer, qualified accountant and company secretary of the Company. She joined the Group in April 2005 and has more than 12 years' experience in accounting, finance and auditing. Prior to joining the Group, Miss Lee was a chief financial officer of two companies listed on the Stock Exchange. She also worked at PricewaterhouseCoopers, an international accounting firm, and was a manager of the audit and business assurance service division prior to leaving. Miss Lee is a member of Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. She graduated from the Chinese University of Hong Kong with a Bachelor's degree in business administration, with a major in professional accountancy.

Report of the Directors

The board of directors (the "Board" or the "Directors") of China Yurun Food Group Limited (the "Company", together with its subsidiaries, the "Group") has pleasure in presenting its 2007 annual report, together with the report of the Directors and the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the offer of a wide range of meat (chilled and frozen) and processed meat (low temperature meat products and high temperature meat products) (with a particular focus on pork products), marketed under its primary "Yurun", "Furun", "Wangrun" and "Popular Meat Packing" brands. There were no significant changes in the nature of the Group's principal activities during the year. The activities of the subsidiaries are set out in Appendix 1 of the financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Group at that date are set out in the audited financial statements on pages 53 to 146.

The Board has recommended a final dividend of HK$0.080 (2006: HK$0.042) per share. This final dividend, together with the interim dividend of HK$0.070 per share, will make a total dividend of HK$0.150 (2006: HK$0.084) per share for the full year ended 31 December 2007.

The final dividend will be paid on or about 28 May 2008 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 21 May 2008.

FIXED ASSETS

Details of movements in the fixed assets of the Group for the year ended 31 December 2007 are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year, except for the placing of 75,000,000 shares in the Company to investors, details of which are set out in the Company's announcement dated 4 October 2007.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 34 to the financial statements. The details of movements in the reserves of the Group during the year are also included in the Consolidated Statement of Changes in Equity on page 59 of this annual report.

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years is set out on pages 147 to 148 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$3,794,634,000, of which approximately HK$122,156,000 has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$217,886 (2006: approximately HK$100,000).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the largest and the five largest customers of the Group accounted for approximately 2.6% and 8.2% respectively of the Group's total turnover for the year.

Purchases from the largest and the five largest suppliers of the Group accounted for approximately 2.4% and 7.6% respectively of the Group's total purchases for the year.

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

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors

Zhu Yicai R/N	*(Chairman)*	
Zhu Yiliang	*(Chief Executive Officer)*	
Zhang Yuanfei	*(Chief Operating Officer)*	
Feng Kuande		
Ge Yuqi		
Bi Guoxiang		Resigned on 12 April 2007

Non-executive Directors

Jiao Shuge A (*alias* Jiao Zhen)	
Sun Yanjun	Appointed on 27 November 2007
Liu Yi Lan, Katherine	Resigned on 27 November 2007

Independent Non-executive Directors

Zheng Xueyi
Kang Woon A/R/N
Gao Hui A/R/N

A: Members of Audit Committee
R: Members of Remuneration Committee
N: Members of Nomination Committee

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Sun Yunjun will retire from office and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 22 to 23 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company with effect from 3 October 2005 for a term of three years. Each of these contracts may be terminated by either party giving not less than three months' notice in writing.

Pursuant to the services agreements entered into between the Company and each of the executive Directors, each of them is entitled to a remuneration of US$60,000 per annum. The Company received written confirmations from certain executive Directors on 8 April 2008, pursuant to which they have agreed to waive part of their remunerations payable by the Group for the services rendered for the year ended 31 December 2007.

Details of the remunerations payable to the Directors for the year are set out in note 13 to the financial statements.

The non-executive Directors and independent non-executive Directors are appointed for a period of one year in accordance with their respective appointment letters.

During the year, the appointments of Mr. Jiao Shuge, Professor Zheng Xueyi, Mr. Kang Woon and Mr. Gao Hui have been renewed for one year upon their expiry, on substantially the same terms.

The Directors shall retire by rotation and be eligible for re-election subject to the rotation provisions in the Bye-laws of the Company.

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and related party transactions are set out on pages 33 to 38 and pages 129 to 136 of this annual report respectively. Save for the above, no Director had a material interest whether directly or indirectly in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during or at the end of the year.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2007, the number of issued shares of the Company was 1,526,952,650; and the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Listing Rules were as follows:

Interest in shares and underlying shares of the Company

Name of Directors	Company/ name of associated corporation	Capacity	Nature of interest	Interest in ordinary shares	Interest in underlying shares [2]	Total	Approximate percentage of the issued ordinary shares in such corporation
Zhu Yicai ("Mr. Zhu")	Company	Interest of a controlled corporation	Personal	674,658,900 [1]	–	674,658,900	44.18%
	Willie Holdings Limited ("Willie Holdings")	Beneficial owner	Corporate	100 [1]	–	100	100%
Zhu Yiliang	Company	Beneficial owner	Personal	–	5,000,000	5,000,000	0.33%
Zhang Yuanfei	Company	Beneficial owner	Personal	–	5,300,000	5,300,000	0.35%
Feng Kuande	Company	Beneficial owner	Personal	–	5,000,000	5,000,000	0.33%
Ge Yuqi	Company	Beneficial owner	Personal	–	5,000,000	5,000,000	0.33%

Notes:

(1) Willie Holdings is owned as to 93.41% by Mr. Zhu and 6.59% by Ms. Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. Mr. Zhu is taken to be interested in these shares by virtue of Part XV of the SFO.

(2) The interests in underlying shares represent the interests in share options granted on 10 November 2006 pursuant to the Company's share option scheme, details of which are set out in the section headed "Share Option Scheme" below.

(3) None of the Directors held any short position in the shares, underlying shares of equity derivatives or debentures of the Company.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company has approved and adopted a share option scheme (the "Share Option Scheme") on 3 October 2005, particulars of which are set out as follows:

(a) The purpose of the Scheme

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

(b) Qualified Participants

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company as at 3 October 2005, that is, the listing date of the Company and all the outstanding options shall not exceed 30% of the issued share capital of the Company from time to time. As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 100,558,380 shares, representing approximately 6.59% of the total number of shares in issue.

(d) **Maximum entitlement of each participant under the Scheme**

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

(e) **Timing for exercise of options**

The period during which an option may be exercised in accordance with the terms of the Scheme shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date. The Group and/or the grantee may or may not require achieving performance target in order to exercise the share options, depending on the terms set out in the individual offer letters.

(f) **Payment for acceptance of option**

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

(g) **Basis of determining the exercise price**

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

(h) **Period of the Scheme**

Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of ten years from 3 October 2005.

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options: As at 1 January 2007 [1]	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2007	Option period [2] & [3]
Directors						
Zhu Yiliang	5,000,000	–	–	–	**5,000,000**	10.11.2006 – 09.11.2016
Zhang Yuanfei	5,300,000	–	–	–	**5,300,000**	10.11.2006 – 09.11.2016
Feng Kuande	5,000,000	–	–	–	**5,000,000**	10.11.2006 – 09.11.2016
Ge Yuqi	5,000,000	–	–	–	**5,000,000**	10.11.2006 – 09.11.2016
Bi Guoxiang	2,000,000	–	–	–	**–** [4]	10.11.2006 – 09.11.2016
Subtotal	22,300,000 [4]	–	–	–	**20,300,000** [4] & [5]	
Employees (other than directors)						
In aggregate	17,750,000	–	–	(500,000)	**17,250,000**	10.11.2006 – 09.11.2016
Others [4]						
In aggregate	–	–	–	–	**2,000,000** [4]	10.11.2006 – 09.11.2016
Subtotal	17,750,000	–	–	(500,000)	**19,250,000**	
Total	40,050,000	–	–	(500,000)	**39,550,000**	

Notes:

(1) All share options were granted on 10 November 2006 and the exercise price is HK$7.460.

(2) This first batch of share options is subject to a restricted period which is from the date of grant, i.e., 10 November 2006 to the date of announcement of the audited financial statements of the Company for the year ended 31 December 2007.

(3) Subject to the satisfaction of other conditions such as performance targets of the Group and/or individual grantee, if any, as set out in the individual offer letters, options will be vested in four equal batches, i.e., 25% of the options will be vested after the first, second, third and fourth anniversaries, respectively of the date of grant after the publication of the results of the relevant financial year.

(4) The share options under "Others" represent share options granted to Mr. Bi Guoxiang prior to his resignation as a Director on 12 April 2007. The Board has resolved to keep the share options of Mr. Bi in view of his past contributions to the Group. Mr. Bi's share options have been re-categorised as "Others" in the above table.

(5) The share options represent personal interest held by the relevant Directors as beneficial owners.

(6) The closing price of the shares of the Company immediately before the date of grant (as of 9 November 2006) was HK$7.580.

(7) No share options were cancelled under the Share Option Scheme during the year.

Information on the accounting policy for share options granted is provided in note 3(k)(iii) to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of share options granted to or exercised by the Directors or chief executive of the Company during the year and their outstanding balances as at 31 December 2007 are set out in the paragraph headed "Share Option Scheme" on pages 29 to 32 of this annual report and note 32 to the financial statements.

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

As at 31 December 2007, so far as is known to the Directors and chief executive of the Company, the interests or short positions of substantial shareholders/other persons (other than Directors and chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Nature of Interest	Number of shares [1]	Approximate percentage of the issue ordinary shares
Willie Holdings	Beneficial owner	Corporate interest	674,658 ,900 (L)	44.18%
Mr. Zhu	Interest of a controlled corporation	Corporate interest	674,658,900 (L) [2]	44.18%
Ms. Wu	Interest of the spouse	Family interest	674,658,900 (L) [2]	44.18%
The Goldman, Sachs & Co. L.L.C.	Interest of a controlled corporation	Corporate interest	183,819,096 (L) 179,139,400 (S)	12.04% 11.73%
AllianceBernstein L.P.	Investment manager	Corporate interest	140,178,000 (L)	9.18%
	Interest of a controlled corporation	Corporate interest	21,472,000 (L)	1.41%

Notes:

(1) The letters "L" and "S" denote the person's long position and short position in such shares, respectively.

(2) Willie Holdings holds 674,658,900 shares in the Company. Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu. Ms. Wu is taken to be interested in these shares by virtue of the SFO.

Save as disclosed above, as at 31 December 2007, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares and underlying shares of the Company.

CONNECTED TRANSACTIONS

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

Types of transactions		Amount (HK$'000)
1. Distribution fee in connection with sale of the Group's chilled and frozen pork by Shanghai Yurun Meat Product Co., Ltd. ("Shanghai Yurun")		11,100
2. Sale of raw pork to, and distribution fee in connection with procurement of packaging materials for, Anhui Xuerun Meat Product Co., Ltd. ("Anhui Xuerun")		6,816
3. Purchase of raw chicken meat from each of Anqing Furun Poultry Product Co. Ltd. ("Anqing Furun") and Liaocheng Furun Poultry Product Co., Ltd. ("Liaocheng Furun")		17,000
4. Leases between the Group and the Predecessor Group including the following:		
4.1 Lease of land and buildings in Jianye District, Nanjing, Jiangsu Province between Nanjing Yurun Food Joint Stock Co., Ltd. ("Yurun Stock") and Nanjing Yurun Food Co., Ltd. ("Nanjing Yurun")	1,131	
4.2 Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Jiangsu Furun Meat Processing Co., Ltd. ("Jiangsu Furun") and Lianyungang Furun Food Co., Ltd. ("Lianyungang Furun")	1,007	
4.3 Lease of land and buildings in Kaiyuan, Liaoning Province between Liaoning Kaiyuan Yurun Meat Product Co., Ltd. ("Kaiyuan Yurun") and Kaiyuan People Food Co., Ltd. ("Kaiyuan Dazhong")	375	
4.4 Lease of land and buildings in Tongzhou District, Beijing between Beijing Yurun Food Co., Ltd. ("Beijing Yurun Food") and Beijing Yurun Meat Co., Ltd. ("Beijing Yurun")	617	
4.5 Lease of land and buildings in Baiyin, Gansu Province between Baiyin Yurun Meat Product Co., Ltd. ("Baiyin Yurun"), Jiangsu Yurun Food Industry Group Company Limited ("Jiangsu Yurun Food Group") and Gansu Yurun Food Co., Ltd. ("Gansu Yurun")	1,439	
4.6 Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Donghai Wangrun branch of Yurun Stock ("Donghai Wangrun") and Nanjing Yurun	976	
4.7 Lease of land and buildings in Conghua District, Guangzhou, Guangdong Province between Guangzhou Jinrun Food Co., Ltd. ("Guangzhou Jinrun") and Guangzhou Yurun Meat Food Co., Ltd. ("Guangzhou Yurun")	206	
		5,751
	Total:	40,667

Report of the Directors

1. **Distribution fee in connection with sale of the Group's chilled and frozen pork by Shanghai Yurun ("Shanghai Yurun — Nanjing Yurun Transaction")**

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

   The aggregate transaction value during the year amounted to approximately HK$11,100,000, which is equivalent to 0.13% of the Group's audited turnover for the year ended 31 December 2007.

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

   On 31 March 2005, Nanjing Yurun and Anhui Xuerun entered into an agreement. Pursuant to the agreement, Nanjing Yurun has agreed to supply raw pork or packaging materials that are required by Anhui Xuerun in its production. The fee charged for procuring materials for Anhui Xuerun is 3% of the amount of the materials procured. The agreement is valid for three years, commencing on 1 January 2005 and ending on 31 December 2007.

   The aggregate transaction value during the year amounted to approximately HK$6,816,000, in which approximately HK$6,664,000 was for sales of raw pork and HK$152,000 was for procurement of packaging materials, which is equivalent to 0.08% of the Group's audited turnover for the year ended 31 December 2007.

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

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

The aggregate transaction value during the year amounted to approximately HK$17,000,000, which is equivalent to 0.20% of the Group's audited turnover for the year ended 31 December 2007.

4. **Leases between the Group and the Predecessor Group**

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

The aggregate amount of rental payments during the year amounted to approximately HK$5,751,000, which is equivalent to 0.07% of the Group's audited turnover for the year ended 31 December 2007.

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

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

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005, respectively were entered into between Yurun Stock as the lessor and Nanjing Yurun as the lessee for the leasing of an industrial building situate at 17 Yurun Road, Jianye District, Nanjing, Jiangsu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB1,100,000 (approximately HK$1,131,000) per annum. The transaction value during the year amounted to approximately HK$1,131,000.

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

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005, respectively were entered into between Jiangsu Furun as the lessor and Lianyungang Furun as the lessee for the leasing of an industrial building situate at 8 Xu Hai Xi Lu, Niu Shan Zhen, Donghai County, Lianyungang, Jiangsu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB980,000 (approximately HK$1,007,000) per annum. The transaction value during the year amounted to approximately HK$1,007,000.

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

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005, respectively were entered into between Kaiyuan Yurun as the lessor and Kaiyuan Dazhong as the lessee for the leasing of an industrial building situate at 69 Tie Xi Jie, Kaiyuan, Liaoning Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB365,000 (approximately HK$375,000) per annum. The transaction value during the year amounted to approximately HK$375,000.

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

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005, respectively were entered into between Beijing Yurun Food as the lessor and Beijing Yurun as the lessee for the leasing of an industrial building situate at 1 Chuang Ye Hua Yuan, Tai Hu Xiang Kou Zi Cun Dong, Taihu County, Tongzhou District, Beijing. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB600,000 (approximately HK$617,000) per annum. The transaction value during the year amounted to approximately HK$617,000.

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

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005, respectively were entered into between Baiyin Yurun and Jiangsu Yurun Food Group as the lessor and Gansu Yurun as the lessee for the leasing of an industrial building situate at 25 Jian She Xi Lu, Baiyin District, Baiyin, Gansu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB1,400,000 (approximately HK$1,439,000) per annum. The transaction value during the year amounted to approximately HK$1,439,000.

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

A lease agreement dated 31 December 2004 and three supplementary agreements dated 25 March 2005, 8 May 2005 and 30 May 2005, respectively were entered into between Donghai Wangrun branch of Yurun Stock as the lessor and Nanjing Yurun as the lessee for the leasing of an industrial building situate at 6 Xu Hai Xi Lu, Niu Shan Zhen, Donghai County, Lianyungang, Jiangsu Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB950,000 (approximately HK$976,000) per annum. The transaction value during the year amounted to approximately HK$976,000.

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

A lease agreement dated 31 December 2004 and two supplementary agreements dated 25 March 2005 and 30 May 2005, respectively were entered into between Guangzhou Jinrun as the lessor and Guangzhou Yurun as the lessee for the leasing of an industrial building situate at Ling Nan Industrial Park, Ling Nan Cun, Qi Gan Zhen, Conghua District, Guangzhou, Guangdong Province. The term of the lease is for 20 years, commencing on 1 January 2005 and expiring on 31 December 2024. The amount of the rental payments under the lease agreements is RMB200,000 (approximately HK$206,000) per annum. The transaction value during the year amounted to approximately HK$206,000.

Notes:

(1) Shanghai Yurun, Anhui Xuerun, Anqing Furun, Liaocheng Furun, Yurun Stock, Jiangsu Furun, Kaiyuan Yurun, Beijing Yurun Food, Baiyin Yurun, Jiangsu Yurun Food Group, Donghai Wangrun, Guangzhou Jinrun, and Suihua Dazhong are beneficially owned by Mr. Zhu Yicai and his associates, the Chairman and controlling shareholder of the Company. They are connected persons of the Company as defined in the Listing Rules.

(2) “Predecessor Group” is a group of companies which operated some or all of the business of the Group prior to the reorganisation for listing.

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

1. in the ordinary and usual course of business of the Company;

2. on normal commercial terms; and

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

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

1. have been approved by the Board;

2. have been entered into in accordance with the relevant agreements governing the transactions; and

3. have not exceeded the cap disclosed previously, save as the distribution fee paid or payable under the Shanghai Yurun — Nanjing Yurun Transaction for the year ended 31 December 2007 has exceeded the relative cap amount, details of which have been set out in the Company's announcement dated 12 March 2008.

Waiver

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

The agreements under the above continuing connected transactions were expired on 31 December 2007 and new agreements have been executed to continue with the transactions for three years, details of which have been set out in the Company's announcement dated 13 December 2007.

Save as disclosed above, there are no other transactions which require disclosure in the annual report in accordance with the Listing Rules.

COMPLIANCE WITH CONTINUING DISCLOSURE REQUIREMENT UNDER CHAPTER 13 OF THE LISTING RULES

In compliance with the continuing disclosure requirements under Rule 13.21 of Chapter 13 of the Listing Rules, the Directors reported below details of the facility agreements which included conditions relating to the specific performance of the controlling shareholder of the Company.

On 2 November 2007, the Company entered into a facility agreement (the "Facility Agreement") with a syndicate of banks for a 3-year term loan facility of up to US$135 million for the financing of the capital expenditure and general corporate funding requirements of the Company and its subsidiaries.

Pursuant to the terms of the Facility Agreement, it would be an event of default if, inter alia, Mr. Zhu Yicai, the controlling shareholder and the chairman of the Company, and his family members, (i) cease to own, directly or indirectly, at least 35% of the shares in the Company or (ii) cease to be the single largest shareholder of the Company; or if Mr. Zhu Yicai ceases to be the chairman of the board of directors of the Company. If such (or any other) event of default occurs, the Facility may immediately be cancelled, all of the loan outstanding under the Facility, together with accrued interest, may immediately be declared due and payable and, upon such declaration, be payable on demand.

As at 31 December 2007, an aggregate amount of US$120 million of loan facility under the Facility Agreement had been drawn.

USE OF PROCEEDS

The shares of the Company were listed on the Main Board of the Stock Exchange on 3 October 2005 ("Listing"). The proceeds from the Listing were applied in accordance with the Group's future plans, details of which are set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated 20 September 2005 as follows:

Intended use	**Unused proceeds as of 1 January 2007** HK$ million	**Actual use of proceeds for the year ended 31 December 2007** HK$ million	**Unused proceeds as at 31 December 2007** HK$ million
To expand production capacity	242	242	—
For working capital requirements and general corporate purposes	223	223	—
For research and development	51	11	40
To expand and improve sales network	20	20	—
	536	496	40

The remaining net proceeds were placed as deposits with interest-bearing bank account.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 38 to the financial statements.

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiry of all Directors, confirms that the Directors have complied with the required standard set out in the Model Code throughout the year.

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 44 to 50 of this annual report.

AUDITORS

KPMG was first appointed as auditors of the Company in 2005. KPMG will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

Zhu Yicai
Chairman

Hong Kong, 9 April 2008

The Group successfully launched more than 190 new products during the year and will continue to optimise its product mix and launch new products with higher profit margins

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

China Yurun Food Group Limited ("Yurun Food" or the "Company") is committed to achieving high standards of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. The Company has complied throughout the period from 1 January 2007 to 31 December 2007 ("Review Year") with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The following summarises the Company's corporate governance practices during the Review Year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the directors of the Company ("Directors"). The Directors confirmed to the Company that they had complied with the required standard set out in the Model Code during the Review Year.

BOARD OF DIRECTORS

The Board of Directors ("Board") currently comprises five executive Directors, two non-executive Directors and three independent non-executive Directors, serving the important function of guiding the management. The executive Directors have extensive experience in the food industry and the non-executive Directors are well established in their respective professions. The Board has a diversified background and professional expertise, which as a group provides the Group with such core competencies such as industry knowledge, technical expertise, customer-based experience and knowledge in finance, accounting, business and management. Biographical details of the Board members are set out on pages 22 to 23 of this annual report.

The Chairman of the Board is Mr. Zhu Yicai, while the Chief Executive Officer is Mr. Zhu Yiliang. The positions of the Chairman of the Board and the Chief Executive Officer are held by separate individuals with a view to maintaining an effective segregation of duties respecting management of the Board and day-to-day management of the Group's business.

The Board, led by the Chairman, is responsible for approving and monitoring the Group's overall strategies and policies, approving annual budgets and business plans, evaluating the performance of the Group, and overseeing the management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group and the shareholders. To facilitate effective management, certain functions have been delegated by the Board to various board committees, namely, audit committee, remuneration committee and nomination committee. Each board committee operates under clearly defined written terms of reference. The chairmen of the Board committees shall report to the Board after meetings.

The Board has delegated the day-to-day operational responsibilities to the executive management under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, including implementation of approved strategies adopted by the Board for the overall operations of the Group.

The members of the Board do not have any connections (including financial, business, family relationship and other material/related relationships) with each other as required to be disclosed pursuant to Appendix 16 to the Listing Rules.

The Company has in force appropriate insurance coverage on directors' and officers' liabilities arising from the Group's business. The management reviews the extent of insurance coverage on an annual basis.

The composition of the Board and their respective attendance in the regular full Board meetings and other committee meetings during the Review Year are as follows:

		Number of meetings attended/held			
		Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Zhu Yicai	*(Chairman)*	4/4	—	1/1	2/2
Zhu Yiliang	*(Chief Executive Officer)*	4/4	—	—	—
Zhang Yuanfei	*(Chief Operating Officer)*	4/4	—	—	—
Feng Kuande		4/4	—	—	—
Ge Yuqi		4/4	—	—	—
Non-executive Directors					
Jiao Shuge		4/4	4/4	—	—
Sun Yanjun		2/2*	—	—	—
Independent Non-executive Directors					
Zheng Xueyi		4/4	—	—	—
Kang Woon		4/4	4/4	1/1	2/2
Gao Hui		4/4	4/4	1/1	2/2
Resigned Directors					
Bi Guoxiang		—*	—	—	—
Liu Yi Lan, Katherine		2/2*	—	—	—

* Attendance taken during term of service for the Review Year.

The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the members of the Board in a timely and effective manner. The Chairman has delegated the responsibility for preparing agenda for each Board meeting to the Company Secretary and to ensure that all Directors are properly briefed on issues to be discussed at Board meetings and receive adequate and accurate information in a timely manner.

The non-executive Directors are appointed for a fixed term of not exceeding three years and are subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's Bye-laws.

The Board has received from each independent non-executive Director a written confirmation confirming his independence during the Review Year pursuant to Rule 3.13 of the Listing Rules.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a remuneration committee ("Remuneration Committee") which currently comprises two independent non-executive Directors, namely, Mr. Kang Woon (chairman of the Remuneration Committee) and Mr. Gao Hui, as well as Mr. Zhu Yicai, the Chairman of the Company. During the Review Year, the Remuneration Committee held one meeting to review the remuneration packages of the Directors and senior management of the Company. All members of the Remuneration Committee were present and the attendance rate was 100%.

The main duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remunerations of Directors and senior management, and to determine the specific remuneration packages of all executive Directors and senior management by reference to the Group's corporate goals and objectives.

The Remuneration Committee has to consult the Chairman of the Company about their proposals relating to the remuneration of executive Directors. The compensation structure for the Directors and senior management of the Group consists of two key components, that is, fixed salary and variable incentive. The fixed salary and other allowances are determined by reference to the remuneration benchmark in the industry and the prevailing market conditions. The variable component which comprises bonus and share options granted under the Company's share option scheme is performance-based and is payable and granted upon achievement of individual and corporate performance targets as determined by the Board from time to time.

NOMINATION OF DIRECTORS

The Company has established a nomination committee ("Nomination Committee") which currently comprises two independent non-executive Directors, namely, Mr. Kang Woon (chairman of the Nomination Committee) and Mr. Gao Hui, as well as Mr. Zhu Yicai, the Chairman of the Company. During the Review Year, the Nomination Committee held two meetings to review the structure, size and composition of the Board, consider the resignation and appointment of non-executive Directors, assess the independence of independent non-executive Directors, and make recommendation on the re-election of the Directors who were subject to retirement and re-election at annual general meeting. All members were present at the meetings and the attendance rate was 100%.

The main duties of the Nomination Committee are to regularly review the structure, size and composition (including skills, knowledge and experience) of the Board and to make recommendations to the Board with regards to any proposed changes, identify and nominate for the approval of the Board, candidates to fill board vacancies as and when they arise, assess the independence of independent non-executive Directors, make recommendations on the succession planning for Directors and senior management of the Group.

The Nomination Committee adopted certain criteria and procedures in the nomination of new directors. The major criteria include the candidates' professional background, especially their experience in the Group's industry, the recommendations from the management team and other knowledgeable individuals. The Nomination Committee will shortlist the candidates and then submit to the Board for discussion and final approval.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") which currently comprises two independent non-executive Directors, namely, Mr. Gao Hui (chairman of the Audit Committee) and Mr. Kang Woon, as well as Mr. Jiao Shuge, a non-executive Director. The Audit Committee is mainly responsible for overseeing the Group's financial reporting, risk management and evaluating internal controls and auditing processes.

During the Review Year, four meetings were held by the Audit Committee with all the members present, with an attendance rate of 100%. The external auditors, the executive Director overseeing the finance functions of the Group, the Chief Financial Officer, and the management staff of the Finance Department and the Internal Audit Department attended those meetings to answer questions raised by the Audit Committee if required. The major works of the Audit Committee during the Review Year include:

- reviewing the Group's annual and interim financial statements before submission to the Board for approval;
- reviewing the development in accounting standards and its impacts on the Group;
- reviewing the external auditors' letter to management and ensuing the Board provides a timely response to the issues raised therein;
- reviewing the independence of external auditors for providing non-audit services to the Group and approving the remuneration and terms of engagement of external auditors;
- making recommendation on the re-appointment of external auditors;
- reviewing the effectiveness of the Group's financial management, internal control and risk management systems;
- reviewing the continuing connected transactions of the Group; and
- working with the Group's Internal Audit Department to carry out internal audit works.

AUDITORS' REMUNERATION

Details of fees paid or payable to the Group's external auditors for the Review Year are as follows:

Services	**Fees** HK$'000
2007 Annual audit	3,686
2007 Interim review	580
Non-audit services	333
Total:	4,599

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board acknowledges that it is responsible for maintaining a sound system of internal controls to safeguard shareholders' interest. The Group's internal control systems have been designed to provide reasonable assurance that asset of the Group are safeguarded, operational controls are in place, business risks are suitably reduced, proper accounting records and financial information are maintained, and, where appropriate, relevant legislation, regulation and best practices are complied with.

The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the Group's internal control system. The Audit Committee works with the Group's Internal Audit Department to carry out internal audit works based on an internal audit plan which is reviewed and approved by the Audit Committee. The Group's Internal Audit Department, which is staffed by qualified and experienced personnel, reports its findings and recommendations for any corrective action required to the Audit Committee directly. The Audit Committee reviews the reports submitted by the Internal Audit Department and the issues on the internal control system of the Group are then discussed and evaluated by the Board periodically every year.

The Internal Audit Department conducted an examination on various material control aspects during the Review Year including financial, operational and compliance controls with the aim of mitigating the overall business and operational risk of the Group. It identified key risk areas and developed appropriate control measures and management actions for correction. Crisis management procedures have also been developed by the Internal Audit Department in order to respond swiftly and positively to any event that results in abrupt loss of consumer confidence. Internal audit reports were submitted to the Audit Committee for review and the findings and recommendations were discussed at Audit Committee meetings and Board meetings.

The Audit Committee, with the assistance of the Internal Audit Department, has reviewed the Group's material internal controls, including financial, operational and compliance controls, and risk management functions during the Review Year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company, the Directors have ensured that the preparation of the financial statements of the Group is made in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the financial statements of the Group is published in a timely manner in accordance with the applicable rules and regulations.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 51 to 52 of this annual report.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

Yurun Food aims at providing its shareholders and potential investors with high standards of disclosure and financial transparency. The Company has set up an Investor Relations Department for handling investor relations matters. During the Review Year, the Company held press conferences twice for results announcement, one-on-one and group meetings with analysts and senior representatives from renowned fund management companies, participated in large investment conferences in China, Hong Kong, the United Kingdom, Singapore and the United States and organised site visits for shareholders and institutional investors to the Group's manufacturing facilities in China. We also kept dialogue with international investors through frequent teleconferences.

Yurun Food makes use of various communication channels to keep investors abreast of the Group's business and latest development. These include annual and interim reports, announcements made through the Company's as well as the Stock Exchange's websites, and annual general meetings. The Company launched webcasts on its website www.yurun.com.hk allowing investors to view our presentations online and obtain detailed slide presentations. The Company also revamps and enriches the contents of its investor relations webpage regularly to include all key information such as corporate calendar, Stock Exchange announcements, stock price information, operation statistics, slide presentations and financial reports. The Company believes that through proactive communications with the investor community, corporate transparency can be enhanced and the Company's potential and actual value can be more fully reflected in the market.

Independent Auditor's Report

To the shareholders of
China Yurun Food Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Yurun Food Group Limited (the "Company") set out on pages 53 to 146, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

9 April 2008

Consolidated Balance Sheet

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Property, plant and equipment	18	**1,779,261**	933,891
Investment property	19	**219,585**	—
Lease prepayments	20	**722,662**	220,238
Investment in an equity accounted investee	22	**3,504**	4,004
Non-current prepayments	23	**233,425**	116,916
Deferred tax assets	24	**12,554**	18,396
		2,970,991	1,293,445
Current assets			
Inventories	25	**681,813**	513,922
Other investments	26	**1,073**	2,000
Current portion of lease prepayments	20	**15,451**	4,675
Trade and other receivables	27	**708,745**	487,436
Amounts due from related companies	37(b)	**—**	4,080
Income tax recoverable	12	**3,718**	—
Pledged deposits	29, 31	**29,728**	1,818
Cash and cash equivalents	28	**1,965,966**	843,956
		3,406,494	1,857,887
Current liabilities			
Bank loans	29	**267,571**	43,000
Finance lease liabilities	30	**459**	516
Trade and other payables	31	**755,958**	377,957
Amounts due to related companies	37(c)	**—**	72,735
Income tax payable	12	**19,021**	7,337
		1,043,009	501,545
Net current assets		**2,363,485**	1,356,342
Total assets less current liabilities		**5,334,476**	2,649,787

CONSOLIDATED BALANCE SHEET

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current liabilities			
Bank loans	29	**826,430**	—
Finance lease liabilities	30	**177,206**	187,665
Deferred tax liabilities	24	**—**	948
		1,003,636	188,613
Net assets		**4,330,840**	2,461,174
Equity			
Share capital	33	**152,695**	145,195
Reserves	34	**3,986,480**	2,303,523
Total equity attributable to equity holders of the Company		**4,139,175**	2,448,718
Minority interests		**191,665**	12,456
Total equity		**4,330,840**	2,461,174

Approved and authorised for issue by the board of directors on 9 April 2008

Zhu Yicai
Director

Zhang Yuanfei
Director

The notes on pages 62 to 146 are an integral part of these financial statements.

Balance Sheet

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Investments in subsidiaries	21	**698,659**	688,260
Current assets			
Other receivables	27	**203**	335
Amounts due from subsidiaries		**3,533,468**	1,466,663
Pledged deposits	29	**29,128**	—
Cash and cash equivalents	28	**7,997**	19,835
		3,570,796	1,486,833
Current liabilities			
Bank loans	29	**183,830**	—
Other payables	31	**7,625**	4,284
		191,455	4,284
Net current assets		**3,379,341**	1,482,549
Total assets less current liabilities		**4,078,000**	2,170,809
Non-current liabilities			
Bank loans	29	**740,542**	—
Net assets		**3,337,458**	2,170,809

Balance Sheet

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Equity			
Share capital	33	**152,695**	145,195
Reserves	34	**3,184,763**	2,025,614
Total equity		**3,337,458**	2,170,809

Approved and authorised for issue by the board of directors on 9 April 2008

Zhu Yicai	**Zhang Yuanfei**
Director	*Director*

The notes on pages 62 to 146 are an integral part of these financial statements.

Consolidated Income Statement

For the Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Turnover	8	**8,635,117**	4,621,336
Cost of sales		**(7,414,760)**	(3,910,174)
Gross profit		**1,220,357**	711,162
Other operating income	9	**190,725**	89,374
Distribution expenses		**(351,017)**	(216,079)
Administrative and other operating expenses		**(188,504)**	(109,754)
Results from operating activities		**871,561**	474,703
Finance income		**63,386**	25,559
Finance expenses		**(22,168)**	(13,673)
Net financing income	10(a)	**41,218**	11,886
Share of loss of an equity accounted investee (net of income tax)	22	**(761)**	(1,224)
Profit before income tax	10	**912,018**	485,365
Income tax expense	11	**(51,189)**	(5,504)
Profit for the year		**860,829**	479,861
Attributable to:			
Equity holders of the Company		**859,319**	480,963
Minority interests		**1,510**	(1,102)
Profit for the year		**860,829**	479,861

Consolidated Income Statement

For the Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Dividends payable to equity holders of the Company attributable to the year	16		
Interim dividend declared during the year		**106,887**	60,982
Dividends proposed after the balance sheet date		**122,156**	60,982
		229,043	121,964
Earnings per share			
Basic	17(a)	**$0.584**	$0.331
Diluted	17(b)	**$0.582**	$0.331

The notes on pages 62 to 146 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	Attributable to equity holders of the Company										
		Share capital	Share premium	Capital surplus	Merger reserve	PRC statutory reserves	Fair value reserve	Exchange reserve	Retained earnings	Total	Minority interests	Total equity
		(Note 33)	(Note 34(b))	(Note 34(c))	(Note 34(d))	(Note 34(e))	(Note 34(f))	(Note 34(g))				
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2006		145,195	1,626,126	3,887	18,546	39,041	–	12,632	310,014	2,155,441	–	2,155,441
Arising on acquisition of Predecessor Entities	37(a)(vii)	–	–	–	(132,352)	16,697	–	–	–	(115,655)	–	(115,655)
Arising on business combinations	7(f)	–	–	–	–	–	–	–	–	–	13,264	13,264
Foreign currency translation		–	–	–	–	–	–	80,818	–	80,818	294	81,112
Profit attributable to equity holders of the Company for the year		–	–	–	–	–	–	–	480,963	480,963	(1,102)	479,861
Deferred tax recognised in reserve	24(b)	–	–	–	–	–	–	–	(964)	(964)	–	(964)
Share based payments	32	–	–	–	–	–	–	–	3,474	3,474	–	3,474
Transfer to reserves		–	–	–	–	26,422	–	–	(26,422)	–	–	–
Dividends approved during the year	16	–	–	–	–	–	–	–	(155,359)	(155,359)	–	(155,359)
At 31 December 2006		145,195	1,626,126	3,887	(113,806)	82,160	–	93,450	611,706	2,448,718	12,456	2,461,174
At 1 January 2007		**145,195**	**1,626,126**	**3,887**	**(113,806)**	**82,160**	**–**	**93,450**	**611,706**	**2,448,718**	**12,456**	**2,461,174**
Issuance of new shares	33(a)	**7,500**	**780,000**	**–**	**–**	**–**	**–**	**–**	**–**	**787,500**	**–**	**787,500**
Share issue expenses		**–**	**(16,635)**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,635)**	**–**	**(16,635)**
Arising on establishment of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,113**	**3,113**
Arising on business combinations	7(e)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**171,000**	**171,000**
Foreign currency translation		**–**	**–**	**–**	**–**	**–**	**–**	**207,966**	**–**	**207,966**	**4,507**	**212,473**
Profit attributable to equity holders of the Company for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**859,319**	**859,319**	**1,510**	**860,829**
Deferred tax recognised in reserve	24(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,334)**	**(4,334)**	**–**	**(4,334)**
Net change in fair value of available-for-sale financial assets		**–**	**–**	**–**	**–**	**–**	**(959)**	**–**	**–**	**(959)**	**(921)**	**(1,880)**
Share based payments	32	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25,469**	**25,469**	**–**	**25,469**
Transfer to reserves		**–**	**–**	**–**	**–**	**109,686**	**–**	**–**	**(109,686)**	**–**	**–**	**–**
Dividends approved during the year	16	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(167,869)**	**(167,869)**	**–**	**(167,869)**
At 31 December 2007		**152,695**	**2,389,491**	**3,887**	**(113,806)**	**191,846**	**(959)**	**301,416**	**1,214,605**	**4,139,175**	**191,665**	**4,330,840**

The notes on pages 62 to 146 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Cash flows from operating activities			
Profit for the year		**860,829**	479,861
Adjustments for:			
— Depreciation		**75,178**	44,529
— Amortisation of lease prepayments		**8,006**	1,208
— (Reversal of)/impairment loss on trade and other receivables		**(8,660)**	1,017
— Interest income		**(15,464)**	(21,996)
— Finance expenses		**22,168**	13,673
— Share of loss of an equity accounted investee		**761**	1,224
— Loss on disposal of property, plant and equipment		**4,847**	575
— Recognition of negative goodwill		**(49,976)**	(39,059)
— Equity-settled share based payment transaction		**25,469**	3,474
— Unrealised foreign exchange gain		**(44,450)**	(3,736)
— Income tax expense		**51,189**	5,504
Operating profit before change in working capital		**929,897**	486,274
Change in inventories		**(102,770)**	(86,915)
Change in trade and other receivables		**(146,524)**	(17,756)
Change in trade and other payables		**126,632**	17,115
Cash generated from operating activities		**807,235**	398,718
Finance expenses paid		**(15,953)**	(1,456)
Income tax paid		**(42,911)**	(1,629)
Net cash from operating activities		**748,371**	395,633

Consolidated Cash Flow Statement

For the Year Ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Cash flows from investing activities			
Proceeds from sale of investment		**1,000**	—
Proceeds from sale of property, plant and equipment		**11,784**	1,959
Interest received		**15,464**	21,996
Contributions from minority interests		**3,113**	—
Acquisitions of property, plant and equipment		**(671,228)**	(325,215)
Payments for lease prepayments		**(308,575)**	(83,349)
Acquisitions of Predecessor Entities, net of cash acquired		**—**	(182,365)
Acquisitions of subsidiaries, net of cash acquired	7	**(327,965)**	(107,889)
Prepayment of business acquisitions	23	**(38,693)**	(70,793)
Net cash used in investing activities		**(1,315,100)**	(745,656)
Cash flows from financing activities			
Capital element of finance lease rentals paid		**(429)**	(635)
Proceeds from bank loans		**1,257,283**	—
Net proceeds from issuance of new shares		**770,865**	—
Repayments of bank loans		**(258,541)**	(20,000)
Interest element of finance lease rentals paid		**(6,215)**	(12,217)
Changes in pledged deposits		**(26,537)**	21,093
Dividend paid		**(167,869)**	(155,359)
Net cash from/(used in) financing activities		**1,568,557**	(167,118)
Net increase/(decrease) in cash and cash equivalents		**1,001,828**	(517,141)
Cash and cash equivalents at 1 January		**843,956**	1,303,400
Effect of exchange rate fluctuations on cash held		**120,182**	57,697
Cash and cash equivalents at 31 December	28	**1,965,966**	843,956

The notes on pages 62 to 146 are an integral part of these financial statements.

1 REPORTING ENTITY

China Yurun Food Group Limited (the "Company") was incorporated in Bermuda on 21 March 2005 as an exempted company with limited liability under the Bermuda Companies Act 1981. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate. The Group is primarily involved in slaughtering, production and sales of chilled and frozen meat and processed meat products. The financial statements were authorised for issue by the directors on 9 April 2008.

2 BASIS OF PREPARATION

(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 of Hong Kong Limited ("Stock Exchange").

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have their functional currencies in Hong Kong dollars and subsidiaries established in the People's Republic of China (the "PRC") have their functional currencies in Renminbi ("RMB"). The Company changed its presentation currency from RMB to Hong Kong dollars, which is the Company's functional currency, in 2007. Comparative financial information has been re-translated to Hong Kong dollars. All financial information presented in Hong Kong dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2 BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

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 and in any future periods affected.

In particular, information about significance areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 40.

3 SIGNIFICANT ACCOUNTING POLICIES

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.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 currently are exercisable 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.

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

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movement of equity accounted investee, 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 equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has obligations or made payments on behalf of the investee.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(iii) 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 financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on the retranslation are recognised in the consolidated income statement, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of operations outside Hong Kong, including goodwill and fair value adjustments arising on acquisition, are translated to Hong Kong dollars at exchange rates at the reporting date. The income and expenses of operations outside Hong Kong are translated to Hong Kong dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through consolidated income statement, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy (j)), and foreign exchange gains and losses on available-for-sales monetary items (see accounting policy (b)(i)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses (see accounting policy (j)).

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy (j)).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy (j)). Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the consolidated income statement as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other operating income” in the consolidated income statement.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated income statement as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

(iii) *Depreciation*

Depreciation is recognised in 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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Properties	20–30 years
Machinery and equipment	10–15 years
Motor vehicles	5–10 years
Furniture and fixtures	5–10 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iv) *Construction in progress*

Construction in progress is stated at cost less impairment losses (see accounting policy (j)). 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.

(e) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries and associates. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the consolidated income statement.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses (see accounting policy (j)).

Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of 20–30 years.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Lease prepayments

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

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individual significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the consolidated income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the consolidated income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 assets. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated 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 units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a favourable 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.

(k) Employee benefits

(i) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee benefits (continued)

(ii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution retirement schemes are recognised as an employee benefit expense in the consolidated income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

(m) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition (continued)

(ii) Government grants

An unconditional government grant is recognised in the consolidated income statement when the grant becomes receivable.

Other government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the consolidated income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the consolidated income statement on a systematic basis over the useful life of the asset.

(iii) Rental income

Rental income receivable under operating leases is recognised in the consolidated income statement on a straight-line basis over the term of lease. Contingent rentals are recognised as income in the accounting period in which they are earned.

(n) Lease payments

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the terms of the leases. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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)

(o) Finance income and expenses

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

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

Foreign currency gains and losses are reported on a net basis.

(p) 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.

(q) Income tax expense

Income tax expense 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 reporting date, and any adjustment to tax payable in respect of previous years.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax expense (continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) 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 returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis. 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 loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Land use rights and property, plant and equipment

The fair value of land use rights recognised as a result of a business combination is based on market value.

Due to the specialised nature of items of property, plant and equipment acquired through business combinations, the fair value of property, plant and equipment recognised as a result of business combinations is determined using a depreciated replacement cost approach.

(ii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance lease, the discount rate is determined by reference to the Group's incremental borrowing rate.

4 DETERMINATION OF FAIR VALUES (continued)

(iv) Share-based payment transactions

The fair value of employee stock options is measured using the binomial lattice model. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on historical volatility and expected growth), weighted average expected life of the instruments (based on general option holder behaviour), expected dividends, and the risk-free interest rate (based on the Exchange Fund Notes). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5 FINANCIAL RISK MANAGEMENT

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

— credit risk
— liquidity risk
— market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The sales to the five largest customers of the Group accounted for approximately 8.17% (2006: 8.98%) of the Group's total turnover for the year. There is no concentration of credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard and payment and delivery terms and conditions are offered. Credit limits are established for each customer, which represents the maximum open amount without requiring special approval from senior management; these limits are reviewed annually. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

5 FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk (continued)

Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group actively monitors the interest rate fluctuation to ensure that its net exposure is kept to an acceptable level.

Foreign currency risk

The Group is exposed to currency risk on borrowings that are denominated in United States Dollars, whilst substantially all the revenue-generating operations of the Group are transacted in Renminbi, the functional currency of the operating subsidiaries in the PRC, which is not freely convertible into foreign currencies. All foreign exchange transactions in the PRC must take place either through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of 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.

The Group actively monitors the foreign exchange rate fluctuation to ensure that its net exposure is kept to an acceptable level. The Group currently does not buy or sell any commodity contract to hedge the currency risk.

(e) Natural risk

The Group is engaged in slaughtering, production and sale of chilled and frozen meat and processed meat product. An occurrence of serious animal diseases, such as foot-and-mouth disease, or any outbreak of other epidemics in the PRC affecting animals or humans might result in material disruptions to the Group's operations and turnover.

The Group has implemented stringent quality control measures both in the procurement and production stages. All raw materials are subject to vigorous inspections and examination. The Group also has regular communication with animal epidemic prevention supervisory departments and implemented the animal epidemic prevention policies promulgated by the supervisory departments.

5 FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of about 20%. The return on capital for the year ended 31 December 2007 was 20.8% (2006: 19.6%).

The Company is subject to covenants relating to certain of the Group's financial ratios and capital requirement. The Group regularly monitors the financial ratios to ensure that the covenants are fulfilled. The Group has complied with the covenants during the year.

6 SEGMENT REPORTING

Business segments

The Group comprises the following main business segments:

Chilled and frozen meat:	The chilled and frozen meat segment carries on the business of slaughtering, production and sales of chilled and frozen meat.
Processed meat products:	The processed meat products segment manufactures and distributes processed meat products, such as sausages and hams.

Geographical segment

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

6 SEGMENT REPORTING (continued)

(a) Revenue and expenses

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**6,605,537**	3,237,002	**2,029,580**	1,384,334	**–**	–	**8,635,117**	4,621,336
Inter-segment revenue	**807,759**	315,207	**–**	–	**(807,759)**	(315,207)	**–**	–
Total segment revenue	**7,413,296**	3,552,209	**2,029,580**	1,384,334	**(807,759)**	(315,207)	**8,635,117**	4,621,336
Segment results	**619,966**	321,272	**293,715**	278,272	**(6,089)**	(3,499)	**907,592**	596,045
Unallocated income and expenses							**(36,031)**	(121,342)
Operating profit							**871,561**	474,703
Net financing income							**41,218**	11,886
Share of loss of an equity accounted investee							**(761)**	(1,224)
Income tax expense							**(51,189)**	(5,504)
Profit for the year							**860,829**	479,861
Depreciation and amortisation for the year	**45,135**	16,287	**38,034**	29,379	**–**	–	**83,169**	45,666
Unallocated depreciation and amortisation for the year							**15**	71
							83,184	45,737
Significant non-cash (income)/expenses (other than depreciation and amortisation)	**(289)**	808	**(992)**	1,326	**–**	–	**(1,281)**	2,134
Unallocated significant non-cash expenses (other than depreciation and amortisation)							**18,090**	2,357
							16,809	4,491

6 SEGMENT REPORTING (continued)

(b) Assets and liabilities

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**3,289,073**	1,309,327	**1,461,228**	1,163,507	**(389,737)**	(196,336)	**4,360,564**	2,276,498
Investment in an equity accounted investee	**–**	–	**3,504**	4,004	**–**	–	**3,504**	4,004
Unallocated assets							**2,013,417**	870,830
Total assets							**6,377,485**	3,151,332
Segment liabilities	**(388,434)**	(332,719)	**(734,927)**	(229,716)	**375,503**	189,750	**(747,858)**	(372,685)
Unallocated liabilities							**(1,298,787)**	(317,473)
Total liabilities							**(2,046,645)**	(690,158)
Capital expenditure incurred during the year	**1,133,812**	566,701	**212,634**	202,875			**1,346,446**	769,576
Unallocated capital expenditure incurred during the year							**15**	35
							1,346,461	769,611

7 BUSINESS COMBINATIONS

(a) Xinyu Runhe Meat Product Co., Ltd* ("Xinyu Runhe")

On 5 January 2007, the Group acquired a 100% equity interest of Xinyu Runhe at a cash consideration of $70,693,000 (RMB70,693,000). Details of Xinyu Runhe at 31 December 2007 are as follows:

Name of company	Registered capital	Results contributed by the company from the date of acquisition to 31 December 2007 $'000	Principal activities
Xinyu Runhe 新餘潤合肉類食品有限公司	RMB10,000,000	45,641	Slaughtering, production and sales of chilled and frozen meat

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

This entity is a domestic company established in the PRC.

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	45,078	24,366	20,712
Lease prepayments	48,345	20,941	27,404
Other net current liabilities	(22,730)	984	(23,714)
Net identified assets acquired	70,693	46,291	24,402
Cash acquired	(1,197)		
Net cash outflow	69,496		

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2007.

7 BUSINESS COMBINATIONS (continued)

(b) Huaxin Food Factory* ("Huaxin")

On 8 January 2007, the Group acquired the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Huaxin from Shandong Province Shanghe County Economic and Trade Commission (山東商河縣經濟貿易局), an independent third party, at a cash consideration of $100,000 (RMB100,000) and injected the relevant business operations and assets into Jinan Wanrun Meat Processing Co., Ltd. Details of Huaxin are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 31 December 2007 $'000	Principal activities
Huaxin 華信食品廠	71,871	Slaughtering, production and sales of chilled and frozen meat

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

The acquisition had the following effect on the Group's assets:

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	24,708	16,030	8,678
Lease prepayments	25,368	25,368	—
Net identified assets acquired	50,076	41,398	8,678
Consideration	(100)		
Negative goodwill arising on acquisition (note 9)	49,976		

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2007. Prior to the acquisition, Huaxin had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on acquisition which resulted in a negative goodwill.

7 BUSINESS COMBINATIONS (continued)

(c) Lixian Huatai Meat Product Co., Ltd.* ("Lixian Huatai")

On 14 February 2007, the Group acquired a 100% equity interest of Lixian Huatai at a cash consideration of $59,048,000 (RMB59,048,000). Details of Lixian Huatai at 31 December 2007 are as follows:

Name of company	Registered capital	Results contributed by the company from the date of acquisition to 31 December 2007 $'000	Principal activities
Lixian Huatai 澧縣華泰肉類食品有限公司	RMB10,000,000	7,145	Slaughtering, production and sales of chilled and frozen meat

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

This entity is a domestic company established in the PRC.

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	57,639	25,406	32,233
Lease prepayments	20,305	9,635	10,670
Other net current liabilities	(18,896)	1,092	(19,988)
Net identified assets acquired	59,048	36,133	22,915
Cash acquired	(3,427)		
Net cash outflow	55,621		

If the acquisition had accrued on 1 January 2007, management estimates that consolidated revenue would have been $8,644,683,000 and consolidated profit for the year would have been $860,367,000.

7 BUSINESS COMBINATIONS (continued)

(d) Dujiangyan Xiangrui Food Co., Ltd.* ("Dujiangyan Xiangrui")

On 24 May 2007, the Group acquired a 100% equity interest of Dujiangyan Xiangrui at a cash consideration of $100,660,000 (RMB98,466,580). Details of Dujiangyan Xiangrui at 31 December 2007 are as follows:

Name of company	Registered capital	Results contributed by the company from the date of acquisition to 31 December 2007 $'000	Principal activities
Dujiangyan Xiangrui 都江堰祥瑞肉類加工有限公司	RMB5,000,000	(4,211)	Slaughtering, production and sales of chilled and frozen meat

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

This entity is a domestic company established in the PRC.

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	58,374	8,503	49,871
Lease prepayments	55,387	—	55,387
Other net liabilities	(13,101)	—	(13,101)
Net identified assets acquired	100,660	8,503	92,157
Cash acquired	(1,385)		
Net cash outflow	99,275		

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2007.

7 BUSINESS COMBINATIONS (continued)

(e) Hunan Huihong Food Company Limited* ("Hunan Huihong")

On 3 December 2007, the Group acquired a 51% equity interest of Hunan Huihong at a cash consideration of $177,980,000 (RMB168,994,000). Details of Hunan Huihong at 31 December 2007 are as follows:

Name of company	Registered capital	Results contributed by the company from the date of acquisition to 31 December 2007 $'000	Principal activities
Hunan Huihong 湖南輝鴻食品有限公司	RMB9,849,000	619	Slaughtering, production and sales of chilled and frozen meat

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

7 BUSINESS COMBINATIONS (continued)

(e) Hunan Huihong Food Company Limited* ("Hunan Huihong") (continued)

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	36,668	1,179	35,489
Investment property (note 19)	202,112	186,861	15,251
Lease prepayments	202,620	141,073	61,547
Other net liabilities	(92,420)	—	(92,420)
	348,980	329,113	19,867
Minority interests	(171,000)		
Net identified assets acquired	177,980		
Cash acquired	(3,714)		
Net cash outflow	174,266		

If the acquisition had accrued on 1 January 2007, management estimates that consolidated revenue would have been $8,670,814,000 and consolidated profit for the year would have been $864,795,000.

7 BUSINESS COMBINATIONS (continued)

(f) Henan Yurun Beixu Meat Food Company Limited* ("Yurun Beixu")

On 18 June 2006, the Group acquired a 75% equity interest of Yurun Beixu at a cash consideration of $732,000 (RMB750,000). Details of Yurun Beixu at 31 December 2006 are as follows:

Name of company	Registered capital	Results contributed by the company from the date of acquisition to 31 December 2006 $'000	Principal activities
Yurun Beixu 河南雨潤北徐肉類食品有限公司	RMB1,000,000	(4,408)	Slaughtering, production and sales of chilled and frozen meat

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

This entity is a domestic company established in the PRC in 2006. The Company had minimal operation before the acquisition by the Group.

7 BUSINESS COMBINATIONS (continued)

(f) Henan Yurun Beixu Meat Food Company Limited* ("Yurun Beixu") (continued)

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

	Recognised values on acquisition $'000	Fair value adjustment $'000	Pre-acquisition carrying amount $'000
Property, plant and equipment (note 18)	42,030	32,019	10,011
Lease prepayments	10,048	10,048	—
Cash and cash equivalents	977	—	977
	53,055	42,067	10,988
Minority interests	(13,264)		
Net identified assets acquired	39,791		
Negative goodwill arising on acquisition (note 9)	(39,059)		
	732		
Cash acquired	(977)		
Net cash inflow	(245)		

Negative goodwill has arisen on the acquisition of Yurun Beixu as a result of bargain purchase.

7 BUSINESS COMBINATIONS (continued)

(g) Badong Heng Xing Meat Product Co., Ltd.* ("Badong Heng Xing")

On 8 December 2006, the Group acquired the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets and liabilities of the Badong Heng Xing in the PRC at a cash consideration of $108,848,000 (RMB108,848,000). Details of Badong Heng Xing at 31 December 2006 are as follows:

Name of company	Registered capital	Results contributed by the company from the date of acquisition to 31 December 2006 $'000	Principal activities
Badong Heng Xing 巴東恆興肉類食品有限公司	RMB10,000,000	(609)	Slaughtering, production and sales of chilled and frozen meat

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

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	50,892	(765)	51,657
Lease prepayments	50,357	4,465	45,892
Other assets	7,599	58	7,541
Net identified assets acquired	108,848	3,758	105,090
Cash acquired	(714)		
Net cash outflow	108,134		

If the acquisition had accrued on 1 January 2006, management estimates that consolidated revenue would have been $4,630,120,000 and consolidated profit for 2006 would have been $481,493,000.

8 TURNOVER

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

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

9 OTHER OPERATING INCOME

	2007	2006
	$'000	$'000
Government subsidies	**122,991**	37,350
Recognition of negative goodwill arising on business combinations	**49,976**	39,059
Rental income	**4,256**	3,132
Sales of scrap	**2,488**	1,712
Sundry income	**11,014**	8,121
	190,725	89,374

10 PROFIT BEFORE INCOME TAX

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

	2007 **$'000**	2006 $'000
(a) Net finance income:		
Interest on bank loans wholly repayable within five years	**14,787**	938
Bank charges	**1,166**	518
Interest on lease obligation	**6,215**	12,217
Foreign exchange gain	**(47,922)**	(3,563)
Interest income	**(15,464)**	(21,996)
	(41,218)	(11,886)
(b) Personnel expenses:		
Wages and salaries	**221,126**	146,310
Contributions to defined contribution schemes	**9,671**	7,691
Social security contribution	**6,939**	5,518
Staff welfare	**3,375**	3,882
Equity-settled share-based payment transactions	**25,469**	3,474
	266,580	166,875

The Group participates in pension schemes organised by the PRC government whereby the Group is required to pay annual contributions at rates ranging from 20% to 22% (2006: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2007.

The Group 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 Group 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 $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.

10 PROFIT BEFORE INCOME TAX (continued)

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

	2007 $'000	2006 $'000
(c) Other items:		
Cost of inventories#	**7,414,760**	3,910,174
Impairment losses on trade and other receivables	**3,360**	7,310
Reversal of impairment losses on trade and other receivables	**(12,020)**	(6,293)
Depreciation	**75,178**	44,529
Loss on disposal of property, plant and equipment	**4,847**	575
Operating lease charges in respect of land use rights and premises		
— minimum lease payments	**1,223**	1,878
— contingent rent	**4,972**	2,239
Amortisation of lease prepayments	**8,006**	1,208
Research and development expenses	**3,530**	4,226
Auditors' remuneration	**4,599**	4,153

Cost of inventories includes $254,259,000 (2006: $183,537,000) relating to personnel expenses, depreciation, amortisation of lease prepayments and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 10(b) for each of these types of expenses.

11 INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	Note	2007 $'000	2006 $'000
Current tax expense			
Current year		**49,821**	6,592
Under/(over) provision in respect of prior years		**197**	(719)
		50,018	5,873
Deferred tax expense/(income)	24(b)		
Change in tax rate		**759**	—
Originating and reversal of temporary differences		**412**	(369)
		1,171	(369)
Income tax expense in the consolidated income statement		**51,189**	5,504

11 INCOME TAX EXPENSE (continued)

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

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

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2007 and 2006.

(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% during the year ended 31 December 2007 (2006: 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 their first profit-making year, followed by a 50% reduction in the PRC enterprise income tax for the subsequent three years ("Tax Holidays").

(ii) Anhui Furun Meat Processing Co. Ltd. ("Anhui Furun"), 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% 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. Subsidiaries of Anhui Furun that satisfied the above conditions were entitled to full exemption from PRC enterprise income tax for the year ended 31 December 2007 since the date they become subsidiaries of Anhui Furun.

(iii) 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% for the remaining years through 2010.

(d) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax law of the PRC which will take effect on 1 January 2008. According to the new PRC tax law and its interpretation rules, the income tax applicable to the companies comprising the Group in the PRC will be reduced from 33% to 25% from 1 January 2008. The Tax Holidays will be deemed to start from 1 January 2008, even if the companies are not yet turning a profit and the unutilised Tax Holidays can continue until expiry.

11 INCOME TAX EXPENSE (continued)

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

(d) (continued)

Under the new PRC tax law and its implementation rules, dividends received by foreign investors from its investment in foreign-invested enterprises are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax treaty between the PRC and Hong Kong, the investment holding companies established in Hong Kong will be subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Pursuant to the grandfathering treatments of the new PRC tax law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

In addition, under the new PRC tax law and its implementation rules, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. Since most of the Group's management is currently located in the PRC, the Group may be subject to PRC income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise may be exempted from this tax, but there is no guarantee that the Group will qualify for this exemption.

Reconciliation of effective tax rate

	2007		2006	
	$'000	**%**	$'000	%
Profit before income tax	**912,018**		485,365	
Income tax using the PRC enterprise income tax rate of 33%	**300,966**	**33.0**	160,170	33.0
Effect of tax rate differential	**10,829**	**1.2**	1,526	0.3
Effect of change in tax rates	**759**	**0.1**	—	—
Non-deductible expenses	**12,871**	**1.4**	3,014	0.7
Under/(over) provision in respect of prior years	**197**	**0.0**	(719)	(0.2)
Effect of tax concessions	**(274,433)**	**(30.1)**	(158,487)	(32.7)
Income tax expense	**51,189**	**5.6**	5,504	1.1

12 INCOME TAX RECEIVABLES/PAYABLES

Current taxation in the consolidated balance sheet represents:

	The Group	
	2007	2006
	$'000	$'000
At beginning of the year	**(7,337)**	(2,887)
Provision for PRC enterprise income tax for the year	**(49,821)**	(6,592)
(Under)/over provision in respect of prior years	**(197)**	719
PRC enterprise income tax paid	**42,911**	1,629
Effect of movements in exchange rates	**(859)**	(206)
At end of the year	**(15,303)**	(7,337)
Represented by:		
Income tax recoverable	**3,718**	—
Income tax payable	**(19,021)**	(7,337)
	(15,303)	(7,337)

13 DIRECTORS' REMUNERATION

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

	2007						
	Fees	Basic salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Sub-total	Share- based payments (Note)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Zhu Yicai	–	834	32	–	866	–	866
Zhu Yiliang	–	382	32	–	414	3,030	3,444
Zhang Yuanfei	–	371	8	–	379	3,212	3,591
Feng Kuande	–	124	12	–	136	3,030	3,166
Ge Yuqi	–	371	32	–	403	3,030	3,433
Bi Guoxiang	–	93	10	–	103	2,758	2,861
Non-executive directors							
Jiao Shuge	–	–	–	–	–	–	–
Sun Yanjun	–	–	–	–	–	–	–
Liu Yi Lan, Katherine	–	–	–	–	–	–	–
Independent non-executive directors							
Zheng Xueyi	150	–	–	–	150	–	150
Kang Woon	150	–	–	–	150	–	150
Gao Hui	150	–	–	–	150	–	150
Total	450	2,175	126	–	2,751	15,060	17,811

13 DIRECTORS' REMUNERATION (continued)

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

	2006						
	Fees	Basic salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Sub-total	Share- based payments (Note)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Zhu Yicai	–	354	16	–	370	–	370
Zhu Yiliang	–	364	16	–	380	432	812
Zhang Yuanfei	–	353	16	–	369	457	826
Feng Kuande	–	117	5	–	122	432	554
Ge Yuqi	–	353	12	–	365	432	797
Bi Guoxiang	–	354	16	–	370	172	542
Non-executive directors							
Jiao Shuge	–	–	–	–	–	–	–
Hsu Shang Wi, William	–	–	–	–	–	–	–
Hsu I-Yin, Joyce	–	–	–	–	–	–	–
Liu Yi Lan, Katherine	–	–	–	–	–	–	–
Independent non-executive directors							
Zheng Xueyi	100	–	–	–	100	–	100
Kang Woon	100	–	–	–	100	–	100
Gao Hui	100	–	–	–	100	–	100
Total	300	1,895	81	–	2,276	1,925	4,201

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(k)(iii).

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 32.

14 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2006: four) are directors whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining one individual (2006: one) are as follows:

	2007 $'000	2006 $'000
Salaries and other emoluments	**1,671**	1,176
Contributions to retirement benefit schemes	**12**	12
Share-based payments	**3,030**	432
	4,713	1,620

The emoluments of the individual with the highest emoluments are within the band of $4,500,001 to $5,000,000 (2006: $1,500,001 to $2,000,000).

15 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a profit of $538,184,000 (2006: $167,090,000) which has been dealt with in the financial statements of the Company.

16 DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year

	2007 $'000	2006 $'000
Interim dividend declared and paid of $0.070 (2006: $0.042) per share	**106,887**	60,982
Final dividend proposed after the balance sheet date of $0.080 (2006: $0.042) per share	**122,156**	60,982
	229,043	121,964

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

16 DIVIDENDS (continued)

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year

	2007 **$'000**	2006 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.042 (2006: $0.065) per share	**60,982**	94,377

17 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year of $859,319,000 (2006: $480,963,000) and the weighted average number of 1,470,240,000 (2006: 1,451,953,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 **'000**	2006 '000
Issued ordinary shares at 1 January	**1,451,953**	1,451,953
Effect of new shares issued (note 33)	**18,287**	—
Weighted average number of ordinary shares	**1,470,240**	1,451,953

17 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year of $859,319,000 and the weighted average number of 1,476,779,000 shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007 ’000
Weighted average number of ordinary shares	**1,470,240**
Effect of deemed issue of shares under the Company’s share option scheme for nil consideration (note 32)	**6,539**
Weighted average number of ordinary shares (diluted)	**1,476,779**

The share options granted under share option scheme are anti-dilutive as at 31 December 2006 and therefore excluded in calculating diluted earnings per share for the year ended 31 December 2006. As a result, diluted earnings per share for the year ended 31 December 2006 is not presented.

18 PROPERTY, PLANT AND EQUIPMENT

The Group

	Properties $'000	Machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Cost:						
At 1 January 2006	395,082	313,879	33,460	15,708	83,444	841,573
Acquisitions through business combinations (note 7)	74,129	18,503	—	—	290	92,922
Additions through acquisitions of predecessor entities (note 37(a)(vii))	—	—	—	—	14,301	14,301
Other acquisitions	6,569	42,549	5,519	10,310	221,230	286,177
Transfers	156,901	70,571	53	655	(228,180)	—
Disposals	(480)	(2,201)	(4,572)	(508)	—	(7,761)
Effect of movements in exchange rates	16,599	12,709	1,239	617	3,341	34,505
At 31 December 2006	648,800	456,010	35,699	26,782	94,426	1,261,717
At 1 January 2007	**648,800**	**456,010**	**35,699**	**26,782**	**94,426**	**1,261,717**
Acquisitions through business combinations (note 7)	**159,699**	**48,422**	**330**	**179**	**13,837**	**222,467**
Other acquisitions	**73,012**	**86,962**	**11,026**	**12,772**	**502,959**	**686,731**
Transfers	**89,385**	**10,505**	**21**	**131**	**(100,042)**	**—**
Reclassifications to investment property (note 19)	**(16,025)**	**—**	**—**	**—**	**—**	**(16,025)**
Disposals	**(28,581)**	**(23,873)**	**(4,033)**	**(457)**	**—**	**(56,944)**
Effect of movements in exchange rates	**43,836**	**33,562**	**2,637**	**1,986**	**6,931**	**88,952**
At 31 December 2007	**970,126**	**611,588**	**45,680**	**41,393**	**518,111**	**2,186,898**

18 PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

	Properties $'000	Machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Accumulated depreciation:						
At 1 January 2006	141,700	109,512	17,218	8,176	—	276,606
Depreciation charge for the year	14,107	25,304	2,597	2,521	—	44,529
Disposals	(89)	(1,505)	(3,386)	(247)	—	(5,227)
Effect of movements in exchange rates	5,972	4,897	672	377	—	11,918
At 31 December 2006	161,690	138,208	17,101	10,827	—	327,826
At 1 January 2007	**161,690**	**138,208**	**17,101**	**10,827**	**—**	**327,826**
Depreciation charge for the year	**24,791**	**40,726**	**4,451**	**4,482**	**—**	**74,450**
Reclassification to investment property (note 19)	**(1,707)**	**—**	**—**	**—**	**—**	**(1,707)**
Disposals	**(6,195)**	**(10,748)**	**(3,261)**	**(366)**	**—**	**(20,570)**
Effect of movements in exchange rates	**13,016**	**12,009**	**1,630**	**983**	**—**	**27,638**
At 31 December 2007	**191,595**	**180,195**	**19,921**	**15,926**	**—**	**407,637**
Carrying amounts:						
At 31 December 2007	**778,531**	**431,393**	**25,759**	**25,467**	**518,111**	**1,779,261**
At 31 December 2006	487,110	317,802	18,598	15,955	94,426	933,891

All properties are located in the PRC.

18 PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

Ownership certificates of certain properties with an aggregate carrying value of $181,900,000 (2006: $10,167,000) at 31 December 2007 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 $37,172,000 (2006: $35,567,000) at 31 December 2007, are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

Leased property, plant and equipment

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, certain property, plant and equipment owned by the entities under common control (collectively referred to as "Predecessor Entities") with an aggregate net book value totalling $272,431,000 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 $13,918,000 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 granted an option in favour of the Group to purchase the land use rights 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.

The Group exercised the option to acquire certain leased property, plant and equipment and land use rights during the year ended 31 December 2006 through the acquisition of Predecessor Entities. Details are disclosed in note 37(a)(vii). At 31 December 2007, the carrying amount of leased property, plant and equipment was $140,227,000 (2006: $158,163,000).

Security

At 31 December 2007, certain properties with a carrying amount of $123,139,000 (2006: $Nil) were pledged against bank loans (see note 29).

19 INVESTMENT PROPERTY

	The Group $'000
Cost:	
At 1 January 2007	—
Acquisitions through business combinations (note 7)	202,112
Reclassification from property, plant and equipment (note 18)	16,025
Effect of movements in exchange rates	3,916
At 31 December 2007	222,053
Accumulated depreciation:	
At 1 January 2007	—
Reclassification from property, plant and equipment (note 18)	1,707
Charge for the year	728
Effect of movements in exchange rates	33
At 31 December 2007	2,468
Carrying amounts:	
At 31 December 2007	219,585
At 31 December 2006	—

Investment property comprises a number of buildings that are leased to third parties. All of the investment properties of the Group are situated in the PRC. The Group leases out investment properties under operating leases. The leases typically carry rental based on storage volume and run for an initial period within one year, with an option to renew the lease when all terms will be re-negotiated. Lease payments are adjusted annually to reflect market rentals.

The management considered that the carrying value of the investment properties was close to their fair value as at 31 December 2007 based on the valuation performed by an independent external valuer during the year.

20 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 ranges from 45 to 49 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 $789,000 as at 31 December 2007 (2006: $751,000) are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

At 31 December 2007, land use right with a carrying amount of $30,895,000 (2006: $Nil) were pledged against bank loans (see note 29).

21 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	$'000	$'000
Unlisted shares, at cost	**698,659**	688,260

Particulars of the subsidiaries are set out in Appendix 1 on pages 140 to 146.

22 INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

	The Group	
	2007	2006
	$'000	$'000
Share of net assets	**3,504**	4,004

22 INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE (continued)

Details of the equity accounted investee at 31 December 2007 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	US$2,800,000	25%	Production and sales of processed meat products

Summary financial information on the equity accounted investee:

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Loss $'000
2007					
100%	**14,787**	**771**	**14,016**	**835**	**(3,042)**
Group's effective interest	**3,697**	**193**	**3,504**	**209**	**(761)**
2006					
100%	16,200	185	16,015	3,168	(4,896)
Group's effective interest	4,050	46	4,004	792	(1,224)

The equity accounted investee established in the PRC is a sino foreign joint-venture enterprise.

23 NON-CURRENT PREPAYMENTS

	The Group	
	2007	2006
	$'000	$'000
Prepayments for acquisitions of land use rights	**155,507**	3,598
Prepayments for acquisitions of property, plant and equipment	**39,225**	42,525
Prepayments for business acquisitions	**38,693**	70,793
	233,425	116,916

On 28 December 2006, the Group entered into an acquisition agreement with Changchun Kuancheng District Finance Bureau (長春市寬城區財政局) to acquire the business operations of slaughtering, production and sale of chilled and frozen meat together with the relevant assets and liabilities of Changchun Food Group Limited at a consideration of RMB38,040,000 (approximately HK$40,840,000). The transfer of assets and liabilities is still in progress and it is expected that the transfer procedures will be completed in the first half of 2008.

24 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2007 are attributable to the following:

	The Group					
	Assets		Liabilities		Net	
	2007	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Property, plant and equipment	**11,147**	16,848	**–**	(977)	**11,147**	15,871
Impairment loss on trade and other receivables	**1,407**	2,631	**–**	–	**1,407**	2,631
Accrued expenses	**–**	–	**–**	(1,054)	**–**	(1,054)
Total deferred tax assets/(liabilities)	**12,554**	19,479	**–**	(2,031)	**12,554**	17,448
Set off of tax under the same tax jurisdiction	**–**	(1,083)	**–**	1,083	**–**	–
Net deferred tax assets/(liabilities)	**12,554**	18,396	**–**	(948)	**12,554**	17,448

24 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 2006 $'000	Recognised in reserve $'000	Recognised in income $'000	Exchange difference $'000	At 31 December 2006 $'000	**Recognised in reserve $'000**	**Recognised in income $'000**	**Exchange difference $'000**	**At 31 December 2007 $'000**
Property, plant and equipment	12,476	(961)	3,835	521	15,871	**(4,251)**	**(989)**	**516**	**11,147**
Impairment loss on trade and other receivables	7,155	(3)	(4,705)	184	2,631	**(83)**	**(1,265)**	**124**	**1,407**
Accrued expenses	(2,231)	–	1,239	(62)	(1,054)	**–**	**1,083**	**(29)**	**–**
Total	17,400	(964)	369	643	17,448	**(4,334)**	**(1,171)**	**611**	**12,554**

25 INVENTORIES

	The Group	
	2007 $'000	2006 $'000
Raw materials	**168,761**	103,682
Work in progress	**61,004**	29,618
Finished goods	**452,048**	380,622
	681,813	513,922

26 OTHER INVESTMENTS

	2007 $'000	2006 $'000
Available-for-sale financial assets, at fair value	**1,073**	2,000

27 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade and bills receivables (note 27(a))	**501,356**	322,793	**—**	—
Value-added tax recoverable	**132,013**	107,817	**—**	—
Deposits and prepayments	**67,129**	51,648	**203**	335
Others	**8,247**	5,178	**—**	—
	708,745	487,436	**203**	335

All of the trade and other receivables are expected to be recovered within one year. As at 31 December 2007, amounts due from related companies of $1,507,000 (2006: $895,000) are included in trade receivables (note 37(b)).

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 35.

(a) Trade and bills receivables

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

	The Group	
	2007	2006
	$'000	$'000
Within 30 days	**382,055**	209,464
31 days to 90 days	**99,959**	89,565
91 days to 180 days	**16,027**	15,741
Over 180 days	**3,315**	8,023
	501,356	322,793

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

27 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 3(j)(i)).

Movements in the allowance for doubtful debts during the year, including specific components, are as follows:

	2007 **$'000**	2006 $'000
At 1 January	**20,802**	19,003
Impairment loss recognised	**3,360**	7,310
Reversal of impairment loss on trade and other receivables	**(12,020)**	(6,293)
Exchange difference	**1,144**	782
At 31 December	**13,286**	20,802

At 31 December 2007, the Group's trade debtors and bills receivable of $13,286,000 (2006: $20,802,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $13,286,000 (2006: $20,802,000) was recognised. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

28 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents in the cash flow statement	**1,965,966**	843,956	**7,997**	19,835

The effective interest rate on call deposits in 2007 was 3.04% (2006: 3.63%).

29 BANK LOANS

The bank loans are repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within one year	**267,571**	43,000	**183,830**	—
After one but within two years	**382,621**	—	**370,070**	—
After two but within five years	**443,809**	—	**370,472**	—
Total loans	**1,094,001**	43,000	**924,372**	—
Less: Loans due within one year classified as current liabilities	**(267,571)**	(43,000)	**(183,830)**	—
	826,430	—	**740,542**	—

29 BANK LOANS (continued)

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Terms				
Guaranteed bank loans denominated in RMB				
— Fixed interest rate at 6.16% to 6.93%	**75,152**	28,000	**–**	–
— Variable interest rate at prevailing market rate in the PRC	**–**	15,000	**–**	–
Secured bank loan denominated in RMB				
— Variable interest rate at prevailing market rate (note (i))	**85,888**	–	**–**	–
Secured loan facility denominated in RMB				
— Fixed interest rate at 8.02% (note (ii))	**8,589**	–	**–**	–
Secured loan facility denominated in USD				
— Floating rate at LIBOR+0.65% (note (ii))	**924,372**	–	**924,372**	–
	1,094,001	43,000	**924,372**	–

Notes:

(i) At 31 December 2007, the secured bank loan was secured by certain properties and land use right with carrying amount of $44,609,000 and $30,895,000 respectively.

(ii) At 31 December 2007, the bank loan facilities of the Group totalling $1,112,016,000 (2006: Nil) were secured by certain properties with carrying amount of $78,530,000 and pledged deposits of $29,128,000. The facilities were utilised to the extent of $939,789,000. Certain of the Group's bank loan facilities were subject to the fulfilment of covenants relating to the Group's financial ratios and capital requirement, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 5(c). As at 31 December 2007, none of the covenants relating drawn down facilities had been breached.

30 FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

The Group

	2007			2006		
	Total minimum lease payments	**Interest expense relating to future periods**	**Present value of the minimum lease payments**	Total minimum lease payments	Interest expense relating to future periods	Present value of the minimum lease payments
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Less than one year	**6,934**	**6,475**	**459**	7,993	7,477	516
Between one and five years	**27,736**	**25,691**	**2,045**	31,442	29,157	2,285
More than five years	**269,531**	**94,370**	**175,161**	290,898	105,518	185,380
	297,267	**120,061**	**177,206**	322,340	134,675	187,665
Total finance lease obligations	**304,201**	**126,536**	**177,665**	330,333	142,152	188,181

31 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade and bills payables	**330,845**	212,543	**–**	–
Receipts in advance	**118,130**	44,230	**–**	–
VAT payable	**2,112**	4,963	**–**	–
Other payables and accruals	**304,871**	116,221	**7,625**	4,284
	755,958	377,957	**7,625**	4,284

All of the trade and other payables (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

31 TRADE AND OTHER PAYABLES (continued)

Included in trade and bills payables at 31 December 2007 were amounts due to related companies of $3,817,000 (2006: $3,734,000) (note 37(c)).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 35.

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	$'000	$'000
Within 30 days	**231,829**	157,481
31 days to 90 days	**51,517**	31,115
91 days to 180 days	**33,964**	10,781
Over 180 days	**13,535**	13,166
	330,845	212,543

As at 31 December 2007, bank deposits totalling $600,000 (2006: $1,818,000) were pledged to banks to secure the letters of credit and bills facilities totalling $600,000 (2006: $1,818,000) which were utilised to the extent of $600,000 (2006: $1,818,000).

32 SHARE-BASED PAYMENTS

On 10 September 2005, the Group established a share option scheme that entitles key management personnel and senior employees to purchase shares in the Company. On 10 November 2006, the Group granted 40,250,000 options to directors, senior management and key employees. Each option gives the holders the right to subscribe for one ordinary share in the Company. No share option was granted during the year ended 31 December 2007.

32 SHARE-BASED PAYMENTS (continued)

(a) The term and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of options '000
Options granted on 10 November 2006 to	
— directors	22,300
— senior management	6,100
— key employees	11,850
Total	40,250

The options have a contractual life of ten years. Options granted are subject to a vesting scale in tranches of 25% each per annum starting from 2008 after announcement of results for the previous year.

(b) The number and weighted average exercise prices of share options are as follows:

	2007 Weighted average exercise price	**2007** Number of options '000	2006 Weighted average exercise price	2006 Number of options '000
Outstanding at 1 January	**$7.46**	**40,050**	—	—
Granted during the year	**—**	**—**	$7.46	40,250
Forfeited during the year	**$7.46**	**(500)**	$7.46	(200)
Outstanding at 31 December	**$7.46**	**39,550**	$7.46	40,050
Exercisable at 31 December		**—**		—

The options outstanding at 31 December 2007 had an exercise price of $7.46 and a remaining life of 8.86 years.

32 SHARE-BASED PAYMENTS (continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model. Expectation of early exercise is incorporated into the binomial lattice model.

Fair value of share options and assumptions	2006
Fair value at grant date	$58,978,000
Share price at grant date	$7.23
Exercise price	$7.46
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	45%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividend yield	1%
Risk free rate (based on the yield of Exchange Fund Notes at the grant date)	3.854%

33 SHARE CAPITAL

(a) Authorised and issued share capital

	2007		2006	
	Number of ordinary shares '000	**Amount $'000**	Number of ordinary shares '000	Amount $'000
Authorised:				
At 1 January and 31 December	**3,000,000**	**300,000**	3,000,000	300,000
Issued:				
At 1 January	**1,451,953**	**145,195**	1,451,953	145,195
Issuance of new shares (Note)	**75,000**	**7,500**	—	—
At 31 December	**1,526,953**	**152,695**	1,451,953	145,195

Note: On 4 October 2007, 75,000,000 new ordinary shares of the Company at a par value of $0.1 were issued at a price of $10.50 per share.

33 SHARE CAPITAL (continued)

(b) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2007 Number '000	2006 Number '000
After the result announcement for the year ended 31 December 2007 to 9 November 2016	$7.46	**9,887**	10,012
After the result announcement for the year ending 31 December 2008 to 9 November 2016	$7.46	**9,888**	10,013
After the result announcement for the year ending 31 December 2009 to 9 November 2016	$7.46	**9,887**	10,012
After the result announcement for the year ending 31 December 2010 to 9 November 2016	$7.46	**9,888**	10,013
		39,550	40,050

Further details of these options are set out in note 32 to these financial statements.

34 RESERVES

(a) The Company

	Note	Share premium (note 34(b)) $'000	Contributed surplus (note 34(h)) $'000	Retained earnings $'000	Total $'000
At 1 January 2006		1,626,126	297,480	86,803	2,010,409
Profit for the year		—	—	167,090	167,090
Share based payments	32	—	—	3,474	3,474
Dividends approved during the year	16	—	—	(155,359)	(155,359)
At 31 December 2006		1,626,126	297,480	102,008	2,025,614
At 1 January 2007		**1,626,126**	**297,480**	**102,008**	**2,025,614**
Issuance of new shares upon placement		**780,000**	**—**	**—**	**780,000**
Share issue expenses		**(16,635)**	**—**	**—**	**(16,635)**
Profit for the year		**—**	**—**	**538,184**	**538,184**
Share based payments	32	**—**	**—**	**25,469**	**25,469**
Dividends approved during the year	16	**—**	**—**	**(167,869)**	**(167,869)**
At 31 December 2007		**2,389,491**	**297,480**	**497,792**	**3,184,763**

(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 represents the difference between the net assets of Predecessor Entities acquired over the consideration given. This reserve is distributable.

34 RESERVES (continued)

(e) 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 boards of directors.

(i) Statutory surplus reserve

The domestic companies in the PRC are required to transfer 10% 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% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

(ii) Statutory public welfare fund

Under the revision of the PRC Company Law in 2006, domestic companies with limited liabilities and companies limited by shares in the PRC are no longer required by law to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006. The relevant transitional treatment of the statutory public welfare fund is provided in "Notice on accounting issues relating to the implementation of the Company Law of the PRC" issued by the Ministry of Finance of the PRC on 15 March 2006. The notice applied to all the Group's companies established in PRC with limited liabilities and took effect on 1 April 2006. Pursuant to the notice, the balance of $186,000 of the statutory public welfare fund as at 31 December 2005 was transferred to the statutory surplus reserve during the year ended 31 December 2006.

(iii) Statutory general reserve

Under the PRC Company Law and the subsidiaries' articles of association, each of the subsidiaries of the Group which is a foreign investment enterprise in the PRC is required to transfer at least 10% of its net profit, as determined under the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50% of the capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

Statutory surplus reserve and 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% of the registered capital.

34 RESERVES (continued)

(f) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(g) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(h) 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.

(i) 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 2007, the aggregate amount of reserves available for distribution to equity holders of the Company was $3,794,634,000 (2006: $2,221,363,000).

35 FINANCIAL INSTRUMENTS

(a) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset including trade and other receivables, amounts due from related companies, pledged deposits and cash and cash equivalents, in the balance sheet.

Cash is placed with a group of banks which management considers have good credit ratings. Credit risk on trade and other receivables has already been taken into account as trade and other receivables are shown in the balance sheet net of impairment losses.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 27.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2007

	Carrying amount $'000	Contractual cash flows $'000	6 months or less $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
Bank loans	1,094,001	1,216,456	29,619	294,560	409,201	483,076	–
Finance lease liabilities	177,665	304,201	3,466	3,468	6,934	20,802	269,531
Trade and other payables	755,958	755,958	755,958	–	–	–	–
	2,027,624	2,276,615	789,043	298,028	416,135	503,878	269,531

35 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

31 December 2006

	Carrying amount $'000	Contractual cash flows $'000	6 months or less $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
Bank loans	43,000	44,164	29,078	15,086	–	–	–
Finance lease liabilities	188,181	330,333	3,996	3,997	7,993	23,449	290,898
Trade and other payables	377,957	377,957	377,957	–	–	–	–
	609,138	752,454	411,031	19,083	7,993	23,449	290,898

(c) Interest rate risk

The interest rates and terms of repayment of bank and other outstanding loans are disclosed in note 29.

Except for the variable-value borrowings, the financial assets and liabilities as at 31 December 2007 and 2006 are not repriceable.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased equity and profit by approximately $6,344,000 (2006: $11,702,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

A decrease of 100 basis points in interest rates at the reporting date would had the equal amount but opposite effect, on the basis that all other variable remain constant.

35 FINANCIAL INSTRUMENTS (continued)

(d) Foreign currency risk

Included in assets and liabilities are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
United States Dollars:				
Current assets	**19,094**	151	**—**	—
Current liabilities	**(24,000)**	(381)	**(24,000)**	(1)
Non-current liabilities	**(96,000)**	—	**(96,000)**	—
	(100,906)	(230)	**(120,000)**	(1)

Sensitivity analysis

A one percent strengthening of Hong Kong dollars against United States Dollars at 31 December 2007 would have increased equity and profit by $7,851,000 (2006: $18,000). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

A one percent weakening of Hong Kong dollars against United States Dollars at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Fair value

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

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

35 FINANCIAL INSTRUMENTS (continued)

(e) Fair value (continued)

The fair value of the Group's financial liabilities is estimated by applying a discounted cash flow using the Group's financing interest rate is as follow:

	2007		2006	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Long term bank loans	**826,430**	**826,430**	—	—
Finance lease liabilities	**177,665**	**113,878**	188,181	167,262

The interest rate used to estimate the fair value of financial instruments above is based on the Group's financing interest rate. The interest rate used is as follows:

	2007	**2006**
Long term bank loans	**4.46–7.56%**	—
Finance lease liabilities	**6.18%**	5.43%

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.

36 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:

	2007 $'000	2006 $'000
Within 1 year	**237**	642
After 1 year but within 5 years	**–**	237
	237	879

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 2007 not provided for in the financial statements were as follows:

	2007 $'000	2006 $'000
Contracted for	**244,739**	57,529
Authorised but not contracted for	**1,238,874**	646,732
	1,483,613	704,261

37 RELATED PARTY TRANSACTIONS

During the years ended 31 December 2007 and 2006, transactions with the following parties are considered as related party transactions.

Name of party

Jiangsu Yurun Food Group Company Limited# ("Jiangsu Yurun Food Group")
江蘇雨潤食品產業集團有限公司

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

Guangzhou Jinrun Food Co., Ltd.# ("Guangzhou Jinrun")
廣州錦潤食品有限公司

Jiangsu Wangrun Food Co., Ltd.# ("Jiangsu Wangrun")
江蘇旺潤食品有限公司

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

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

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

37 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

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

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

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.

* Itoham is an associate of the Group.

37 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions

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

	2007 **$'000**	2006 $'000
Sales of meat and by-product		
Anhui Xuerun	**6,664**	16,940
Anhui Enbi	**1,418**	2,419
Total	**8,082**	19,359
Sales of raw materials		
Anhui Xuerun*	**5,205**	7,250
Purchases of raw materials		
Anqing Furun	**3,630**	1,460
Liaocheng Furun	**13,370**	6,279
Total	**17,000**	7,739
Purchases of finished goods		
Anhui Xuerun **	**73,524**	55,841

* The cost of sales of raw materials to Anhui Xuerun and the deemed distribution fee amounted to $5,053,000 (2006: $7,039,000) and $152,000 (2006: $211,000) respectively.

** The related sales of finished goods purchased from Anhui Xuerun and the deemed distribution fee amounted to $75,798,000 (2006: $57,568,000) and $2,274,000 (2006: $1,727,000) respectively.

37 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

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

Certain property, plant and equipment and land use rights owned by the Predecessor Entities were leased to the Group under finance leases (notes 18 and 30) and operating leases respectively.

The rental for the year ended 31 December 2007 amounted to $7,033,000 (2006: $12,921,000).

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, 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 $34,538,000 (2006: $14,133,000) as at 31 December 2007 to the Group. No rental is paid or payable by any of the group companies.

(iv) Disposal of other investment

During the year ended 31 December 2007, the Group disposed of available-for-sales financial assets at its carrying value of $1,000,000 to Jiangsu Yurun Food Group with no gain or loss on disposal.

(v) Use of trademarks

During the years ended 31 December 2007 and 2006, Jiangsu Yurun Food Group granted a non-exclusive and non-transferable license for the use of certain trademarks to the Group. No charge is paid or payable by any of the group companies.

37 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

(vi) Guarantee

As at 31 December 2006, certain bank loans totalling $43,000,000 were guaranteed by Jiangsu Yurun Food Group. No bank loan was guaranteed by Jiangsu Yurun Food Group as at 31 December 2007.

(vii) Acquisitions of Predecessor Entities

During the year ended 31 December 2006, the Group acquired Anhui Furun, Guangyuan Furun Meat Product Co., Ltd., Handan Furun Meat Product Co., Ltd., Kaifeng Furun Meat Product Co., Ltd., Kaiyuan Furun Meat Product Co., Ltd., Sichuan Furun Meat Product Co., Ltd., and Suzhou Furun Meat Product Co., Ltd., at a consideration of RMB259,028,000 (approximately HK$257,449,000).

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

	Pre-acquisition carrying amounts at the respective acquisition date $'000
Construction in progress	14,301
Lease prepayments	81,060
Finance lease receivables	99,587
Other net liabilities	(53,154)
	141,794

The properties and land use right owned by the Predecessor Entities were leased to the Group under finance lease and operating lease respectively. Accordingly, the Group's finance lease liabilities amounted to $99,587,000 were eliminated at the date of acquisition. The excess of the consideration over the carrying amounts of the acquired net assets was recorded in the merger reserve.

37 RELATED PARTY TRANSACTIONS (continued)

(b) Amounts due from related companies

	2007 **$'000**	2006 $'000
Trade		
Anhui Xuerun	**1,410**	880
Anhui Enbi	**97**	15
	1,507	895
Non-trade		
Jiangsu Yurun Food Group	**–**	3,195
Anhui Enbi	**–**	885
	–	4,080
Total	**1,507**	4,975

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 2007 and 2006.

37 RELATED PARTY TRANSACTIONS (continued)

(c) Amounts due to related companies

	2007 $'000	2006 $'000
Trade		
Anhui Enbi	–	25
Anhui Xuerun	**2,750**	619
Anqing Furun	**606**	396
Liaocheng Furun	**461**	2,694
	3,817	3,734
Non-trade		
Jiangsu Yurun Food Group	–	12,676
Anhui Yurun	–	34,186
Jiangsu Furun	–	15,963
Neijiang Yurun Product	–	9,910
	–	72,735
Total	**3,817**	76,469

Non-trade balances due to related companies represent amounts payable for the acquisition of Predecessor Entities. Amounts due to related companies are unsecured, interest free and are expected to be repaid within one year.

37 RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 13 and certain of the highest paid employees as disclosed in note 14, is as follows:

	2007 $'000	2006 $'000
Salaries and other emoluments	**4,749**	3,419
Contributions to retirement benefit schemes	**200**	128
Share-based payment	**18,634**	2,434
Total	**23,583**	5,981

Total remuneration is included in "personnel expenses" (see note 10(b)).

38 SUBSEQUENT EVENT

On 27 February 2008, the Financial Secretary of the Hong Kong Special Administrative Region Government announced his annual budget which propose a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008–09 and a one-off reduction of 75% of the tax payable for the 2007–08 assessment subject to a ceiling of $25,000. In accordance with the Group's accounting policy set out in note 3(q), no adjustments have been made to these financial statements as a result of this announcement. The directors estimate the impact of these proposed changes will not have material effects on the net assets and profit or loss of the Group. It is impracticable to further estimate the impact on future financial statements of the change in tax rate.

39 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate and ultimate holding company of the Company as at 31 December 2007 to be Willie Holdings Limited incorporated in BVI. This entity does not produce financial statements available for public use.

40 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Notes 4, 32 and 35 contain information about the assumptions relating to the determination of fair value of land use rights, property, plant and equipment, share options granted and financial instruments. Other sources estimation uncertainties are as follows:

(i) Impairment of property, plant and equipment, construction in progress, investment property and lease prepayments

The Group reviews its property, plant and equipment, construction in progress, investment property and lease prepayments for indications of impairment at each balance sheet date according to accounting policies set out in note 3(j). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) 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.

(iii) 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 reassesses the impairment of trade receivables at the balance sheet date.

40 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key sources of estimation uncertainty (continued)

(iv) 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 reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

(v) Taxation

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007

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 2007 and which have not been adopted in these financial statements. 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. So far it has concluded that except for International Accounting Standard 23 (Revised) Borrowing costs, which requires entities to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007 (continued)

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective date (for annual financial statements covering periods beginning on or after)
IFRS 8	Operating segments	1 January 2009
IAS 1 (revised)	Presentation of financial statements	1 January 2009

APPENDIX 1

The following list contains only the particulars of subsidiaries as at 31 December 2007 which principally affected the results, assets or liabilities of the Group:

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activity
Key World Industrial Limited	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
Anhui Furun (note (iii)) 安徽省福潤肉類加工有限公司	PRC	RMB200,000,000/ RMB200,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Badong Heng Xing (note (iii)) 巴東恆興肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Changchun Yurun Food Co., Ltd. (note (iii)) 長春雨潤食品有限公司	PRC	RMB5,000,000/ RMB5,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Dujiangyan Xiangrui (note (iii)) 都江堰祥瑞肉類加工有限公司	PRC	RMB5,000,000/ RMB5,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat

APPENDIX 1 (continued)

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Guangyuan Furun Meat Product Co., Ltd. (note (iii)) 廣元福潤肉類食品有限公司	PRC	RMB5,000,000/ RMB5,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Handan Furun Meat Product Co., Ltd. (note (iii)) 邯鄲市福潤肉類食品有限公司	PRC	RMB5,000,000/ RMB5,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
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 sales of chilled and frozen meat
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 sales of chilled and frozen meat
Hunan Huihong (note (iii)) 湖南輝鴻食品有限公司	PRC	RMB9,849,000/ RMB9,849,000	—	51	Slaughtering, production and sales of chilled and frozen meat
Yurun Beixu (note (iii)) 河南雨潤北徐肉類食品有限公司	PRC	RMB1,000,000/ RMB1,000,000	—	75	Slaughtering, production and sales of chilled and frozen meat
Jiangsu Wanrun Meat Processing Co., Ltd. (note (iii)) 江蘇萬潤肉類加工有限公司	PRC	RMB5,000,000/ RMB5,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat

APPENDIX 1 (continued)

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Jinan Wanrun Meat Processing Co. Ltd. (note (iii)) 濟南萬潤肉類加工有限公司	PRC	RMB5,000,000/ RMB5,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Jinzhou Furun Food Co., Ltd. (note (iii)) 錦州福潤食品有限公司	PRC	RMB2,000,000/ RMB2,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Kaifeng Furun Meat Product Co., Ltd. (note (iii)) 開封福潤肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Kaiyuan Furun Meat Product Co., Ltd. (note (iii)) 開原市福潤肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Lianyungang Furun Food Co., Ltd. (note (ii)) 連雲港福潤食品有限公司	PRC	US$29,500,000/ US$29,500,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Lixian Huatai (note (iii)) 澧縣華泰肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat

APPENDIX 1 (continued)

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
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 sales of chilled and frozen meat
Sichuan Furun Meat Product Co., Ltd. (note (iii)) 四川省福潤肉類食品有限公司	PRC	RMB20,000,000/ RMB20,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Suzhou Furun Meat Product Co., Ltd. (note (iii)) 宿州福潤肉類食品有限公司	PRC	RMB106,000,000/ RMB106,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Xinyu Runhe (note (iii)) 新餘潤合肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Fuyang Furun Meat Processing Co., Ltd. (note (i)) 阜陽福潤肉類加工有限公司	PRC	US$29,000,000/ US$29,000,000	—	100	Sales of chilled and frozen meat
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	Sales of chilled and frozen meat
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	Sales of chilled and frozen meat

APPENDIX 1 (continued)

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
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	Sales of chilled and frozen meat
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 sales 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 sales 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 sales 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$10,000,000/ US$10,000,000	—	100	Production and sales 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 sales of processed meat products

APPENDIX 1 (continued)

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
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 sales of processed meat products
Liangyungang Yurun Food Co., Ltd. (note (i)) 連雲港雨潤食品有限公司	PRC	US$47,500,000/ US$47,500,000	—	100	Production and sales of processed meat products
Maán Shan Yurun Food Co., Ltd. (note (i)) 馬鞍山雨潤食品有限公司	PRC	US$55,000,000/ US$55,000,000	—	100	Production and sales 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 sales 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 sales of processed meat products
Xinjiang Yurun (note (iii)) 新疆雨潤	PRC	RMB5,000,000/ RMB5,000,000	—	100	Production and sales of processed meat products
Hefei Wanrun Food Co., Ltd. (note (iii)) 合肥萬潤食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	—	100	Business operation not yet commenced

APPENDIX 1 (continued)

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Shenyang Yurun Food Co., Ltd. (note (i)) 瀋陽雨潤食品有限公司	PRC	US$15,000,000/ US$15,000,000	—	100	Business operation not yet commenced
Shenyang Furun Food Co., Ltd. (note (i)) 瀋陽福潤肉類加工有限公司	PRC	US$15,000,000/ US$15,000,000	—	100	Business operation not yet commenced
Xiangfan Zhende Meat Product Co., Ltd. (note (iii)) 襄樊禎德肉類食品有限公司	PRC	RMB5,000,000/ RMB5,000,000	—	100	Business operation not yet commenced
Fuyu Lianrun Food Co., Ltd. (note (iii)) 扶余聯潤食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	—	100	Business operation not yet commenced
Yuber Food (Maanshan) Co., Ltd. (note (ii)) 馬鞍山雨潤百瑞食品有限公司	PRC	EUR1,000,000/ EUR5,000,000	—	70	Business operation not yet commenced

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) These entities established in the PRC are limited liability companies.

(iv) 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(a)(i) and have been consolidated into the consolidated financial statements.

Five-year Summary

(Expressed in Hong Kong dollars)

	2003 $'000	2004 $'000	2005 $'000	2006 $'000	**2007** **$'000**
Assets and liabilities					
Non-current assets	540,132	704,605	589,304	1,293,445	**2,970,991**
Net current assets	55,566	87,678	1,844,598	1,356,342	**2,363,485**
Total assets less current liabilities	595,698	792,283	2,433,902	2,649,787	**5,334,476**
Non-current liabilities	(156,958)	(177,001)	(278,461)	(188,613)	**(1,003,636)**
	438,740	615,282	2,155,441	2,461,174	**4,330,840**
Share capital	228,160	229,569	145,195	145,195	**152,695**
Reserves	210,580	385,713	2,010,246	2,303,523	**3,986,480**
Total equity attributable to equity holders of the Company	438,740	615,282	2,155,441	2,448,718	**4,139,175**
Minority interests	—	—	—	12,456	**191,665**
Total equity	438,740	615,282	2,155,441	2,461,174	**4,330,840**
Operating results					
Turnover	1,820,407	2,434,488	4,229,786	4,621,336	**8,635,117**
Result from operating activities	144,836	249,279	377,948	474,703	**871,561**
Net finance (costs)/income	(26,323)	(41,085)	(32,134)	11,886	**41,218**
Share of loss of an equity accounted investee	—	—	(481)	(1,224)	**(761)**
Profit before income tax	118,513	208,194	345,333	485,365	**912,018**
Income tax expense	(28,935)	(49,441)	(7,297)	(5,504)	**(51,189)**
Profit for the year	89,578	158,753	338,036	479,861	**860,829**

Five-year Summary

(Expressed in Hong Kong dollars)

	2003 $'000	2004 $'000	2005 $'000	2006 $'000	**2007** **$'000**
Attributable to:					
Equity holders of the Company	89,578	158,753	338,036	480,963	**859,319**
Minority interests	—	—	—	(1,102)	**1,510**
Profit for the year	89,578	158,753	338,036	479,861	**860,829**
Earnings per share					
Basic ($)	0.098	0.174	0.324	0.331	**0.584**
Diluted ($)	0.098	0.173	0.323	0.331	**0.582**

Notes:

(i) 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 Company became the holding company of the Group on 10 September 2005 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2002, rather than from 10 September 2005. Accordingly, the consolidated results of the Group for the five years ended 31 December 2007 have been prepared as if the group structure immediately after the Reorganisation had been in existence since 1 January 2002. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 December 2003 and 2004 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2003 and 2004. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

(ii) The calculation of basic earnings per share for the two years ended 31 December 2004 is based on the profit attributable to equity holders of the parent for each of the two years ended 31 December 2004 and 915,000,000 shares in issue as at the date of the Prospectus as if the shares were outstanding throughout the entire period.

(iii) The Group changed its presentation currency from Renminbi to Hong Kong dollars in 2007. The financial information for the four years ended 31 December 2006 has been re-translated into Hong Kong dollars.