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

(Incorporated in Bermuda with limited liability)

Stock Code: 1068

ANNUAL REPORT 2008

食品工业是道德工业

You Trust Because We Care


yurun

Contents

Corporate Information	2
Chairman's Statement	4
Financial Highlights	7
Management Discussion and Analysis	10
Biographical Details of Directors and Senior Management	16
Report of the Directors	20
Corporate Governance Report	34
Independent Auditor's Report	40
Consolidated Balance Sheet	41
Balance Sheet	43
Consolidated Income Statement	44
Consolidated Statement of Changes in Equity	45
Consolidated Cash Flow Statement	46
Notes to the Consolidated Financial Statement	48
Principal Subsidiaries	114
Five-year Summary	121

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Yicai *(Chairman)*
Zhu Yiliang *(Chief Executive 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

Lee Wing Sze, Rosa HKICPA, FCCA

AUTHORIZED REPRESENTATIVES

Zhu Yicai
Lee Wing Sze, Rosa

AUDITORS

KPMG

PRINCIPAL BANKERS

DBS Bank Ltd., Hong Kong Branch
Bank of Communications Co., Ltd.
China Construction Bank Corporation
Bank of China Limited
Agricultural Bank of China
China Merchant Bank Co., Ltd.

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
Iu, Lai & Li Solicitors & Notaries

As to Bermuda law
Conyers Dill & Pearman

STOCK CODE

1068

WEBSITE

www.yurun.com.hk


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YURUN GROUP

Chairman's Statement

Zhu Yicai
Chairman

We believe with the support of our shareholders, we will be able to boldly face the market challenges, and continue to implement effective and dynamic business strategies.

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, the "Group"), I am pleased to present to you the annual results of Yurun Food for the year ended 31 December 2008 (the "Review Year").

BUSINESS REVIEW

2008 was a challenging year, all industries across the board in China were adversely affected by the global financial crisis. However, since meat products are staples of local consumers in China, pork industry was relatively less affected without a sharp decline in market demand regardless of economic downturn. Looking back at market condition, hog prices remained at a high price in the first half of 2008 due to continued limited supply since 2007. As a result of various measures implemented by the Chinese Government started to be evident in the second half of 2008, the imbalance between supply and demand of domestic hog was alleviated. Hogs number increased and hog prices trended down accordingly. Despite the difficult and challenging market environment, Yurun Food strived to cope with the market changes and achieved stable growth in 2008.

As an industry leader, it is always the philosophy of Yurun Food to maintain the highest standards of ethical excellence by ensuring food production is of quality standard and providing safe and healthy products that "you trust because we care". Food safety control system and inspection equipment of international standard were already in place. The Group also implemented stringent control over the production process from slaughtering to food processing according to the international standards. Leveraged on our continued efforts in maintaining product quality, Yurun Food has already become a reputable brand in the market. In particular, as the consumers were more alert to food safety during the year, Yurun Food successfully expanded its sales, achieving steady growth amid market downturn in 2008.

Chairman's Statement

During the Review Year, the Group continued to strengthen its market leading position through various initiatives such as enhancing brand recognition, optimizing production scale, diversifying distribution channels, improving research and development capability and adopting flexible pricing policy.

In 2008, the Group continued to increase its market share. Our low temperature meat products ("LTMP") topped the sales made to large-scaled retailers in China for the eighth consecutive year. The Group also ranked third in terms of number of hogs slaughtered. During the Review Year, the Group launched numerous marketing campaigns with the focus on food safety on China Central Television and various mobile media. With these efforts, the flagship brand, "Yurun" was further promoted. Its LTMP and chilled meat, with higher added value targeting at higher end customers, continued to be the two major drivers for revenue and profit growth as these two products are more defensive under the weak economic environment. During the Review Year, the Group continued to enhance production capacity and optimize its strategic production network across the nation, laying a solid foundation for the Group to capture an expanding market demand.

In a year full of challenges and difficulties, Yurun Food was able to overcome most obstacles and achieved its financial objectives during the Review Year. In 2008, the turnover of the Group was HK$13.024 billion and profit attributable to equity shareholders of the Company was HK$1.138 billion, representing a significant increase of 50.8% and 32.4% respectively compared to those of last year. Despite all the challenges, the economic crisis also triggered off business potentials. Yurun Food will prudently look for business opportunities to maintain its leading market position. After considering the Group's future development and capital requirement, the Board recommended a final dividend of HK8 cents per share. In addition to the interim dividend of HK11 cents per share, total dividend for the year is HK19 cents with the payout ratio of approximately 26%.

With the effort and hard work of over ten thousand members of staff, Yurun Food successfully grew its business in 2008 amid the challenging market environment. The Group successfully improved its product quality, optimized its regional landscape and enhanced its research and development abilities. We also strengthened our supply and distribution channels and boosted the brand recognition. In response to the increasing awareness on food safety, Yurun Food will strive to fulfill its social responsibilities to provide high quality products on the back of its stringent quality control system.

Chairman's Statement

PROSPECT

The adverse impact of the economic crisis is expected to persist in 2009 given the current global environment. The increasing concerns over economic downturn presented uncertainties of both the market and industry development in future. Though the impact of the financial crisis on food industry is relatively small compared with other industries, the Group will nevertheless closely monitor the market developments. The Group is confident that with its strong brand recognition, high quality products, national geographical locations, effective marketing strategies, strong research and development capability, and increasing risk management awareness, Yurun Food will be able to overcome the market challenges and further improve its business performance.

As customers are increasingly aware of food safety, food companies with reputable brands are believed to benefit from this trend. In 2008, the Chinese government implemented a series of regulations including the "Administrative Provision for Live Pig Slaughtering" and "Food Safety Regulations". As a result, the closure of slaughtering enterprises with low hygiene standards is expected and this will surely accelerate industry consolidation. The Group will evaluate the market environment and industry development from time to time to execute the most appropriate strategy to capture business opportunities arising from the industry consolidation. On the back of its solid foundation, Yurun Food targets to expand its business and sharpens its competitive advantages under the unprecedented circumstance, with adequate risk evaluation..

It is always the philosophy of Yurun Food to produce the highest quality food and offer consumers with the healthy, tasty and nutritious high-end meat products. Looking ahead, the Group will strengthen Yurun's brand image and further promote its business development through stringent quality control measures and promotion of premium products. Supported by the favourable government policies, the Group will further enhance its production capability as well as shareholders' returns in a prudent manner.

ACKNOWLEDGEMENT

Yurun Food will continue to strengthen its brand name and leading role in the meat industry. 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 contributed to the Group's success over the past year.

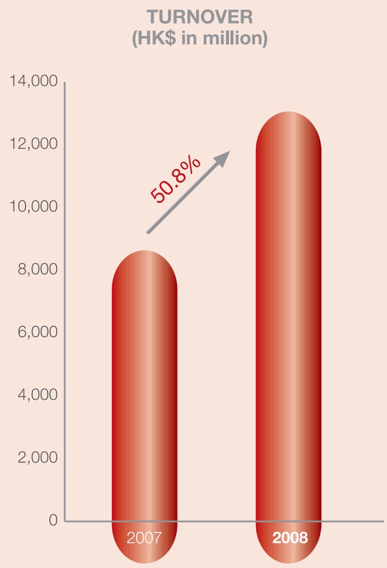
Going forward, the Group will remain committed to its philosophy to provide products "you trust because we care" by maintaining the highest food production standards in China. Yurun Food also aims at becoming the meat production leader in China and bringing greater returns to our shareholders.

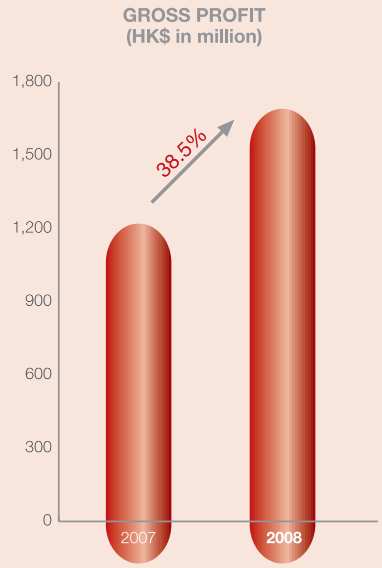
Zhu Yicai
Chairman
23 March 2009

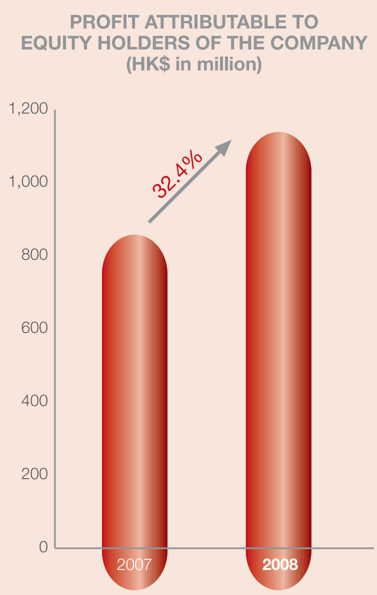
Financial Highlights

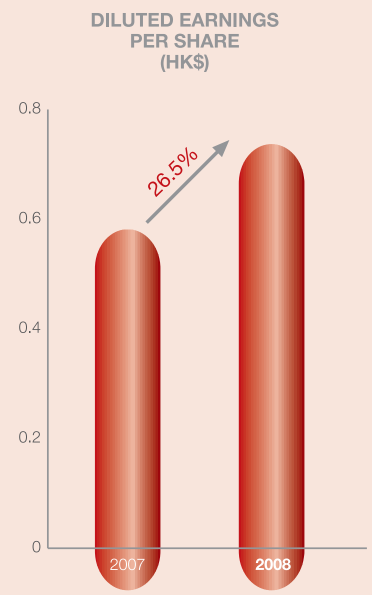
	2008 (HK$ in million)	2007 (HK$ in million)	Growth
Turnover	**13,024**	8,635	50.8%
Gross Profit	**1,690**	1,220	38.5%
Profit attributable to equity holders of the Company	**1,138**	859	32.4%
Diluted earnings per share (HK$)	**0.736**	0.582	26.5%

- In 2008, the Group's turnover increased significantly by 50.8% to HK$13.024 billion.
- The Group's net profit reached HK$1.138 billion, representing an increase of 32.4% compared to that of last year.
- Diluted earnings per share was HK$0.736, representing an increase of 26.5% over that of 2007.









Continuous launch of new products attracts customers and families with modern lifestyle and enhances the Group's sales and profitability.

Management Discussion and Analysis

INDUSTRY OVERVIEW

2008 was a year of changes and challenges. The global economy faced daunting challenges under the international financial crisis. Food safety issue lashed against various food companies in China while the fluctuation in hog supply and price brought adverse effects to the pork industry. The Chinese economy, however, was able to remain relatively stable when compared with other countries, achieving a 9.0% GDP growth in 2008.

During the Review Year, various food safety incidents aroused the public awareness of food safety. In addition, the Chinese government encouraged an orderly development of the slaughtering industry and implemented a series of regulations including the "Administrative Provision for Live Pig Slaughtering" and "Food Safety Regulations" in 2008. It is expected that small-scale slaughtering enterprises with low hygiene standards will be weeded out under the tightened regulations, and industry consolidation will be accelerated. It is foreseeable that the industry development becomes more favourable to large-scale slaughtering enterprises with higher operational efficiency and product quality.

Fluctuations in hog price in 2007 brought adverse impacts to the business environment and the livelihood of the people. The Chinese government managed to stabilize hog price in the second half of 2008 by various measures, including maintaining stable hog supply, providing subsidies on breeder pigs, encouraging optimized scale of production and implementing *Contingency Plan on Preventing Excessive Drop in Hog Price (Interim)*, to sooth the pressure of excess price volatility. Sufficient hog supply and relatively stable hog price in turn provided a better business operating environment for the domestic hog slaughtering industry amid the fluctuating market conditions.

BUSINESS REVIEW

Despite the drastic changes in the market environment in 2008, the Group maintained robust growth by leveraging on its high quality products, recognised brand and market position, business strategy focusing on mid-to-high end markets, flexible pricing strategies, experienced management team and risk management policy. The higher margin low temperature meat products ("LTMP") and chilled meat remained the key drivers to the steady growth of the Group's revenue.

During the Review Year, the Group continued to expand its production capability and increase market supply through acquisitions, construction and expansion of new plants, in order to meet surging consumer demand. In addition, the Group believes that with its image of providing safe, healthy and quality products in the market, Yurun Food's sale was not adversely affected by the food safety incidents. On the contrary, the Company is able to maintain its competitiveness and strong growth in sales despite the economic downturn.

Management Discussion and Analysis

Product Quality and R&D

Product quality always tops Yurun Food's priority. Stringent quality control procedures were properly in place throughout the process of procurement, production, sales and logistics. The Group closely monitored the quality of hogs including selecting fine hog species and carried out detailed inspection to ensure the required hygiene standards were duly complied with.

The Group focused on research and development ("R&D") of mid-to-high end products. The R&D team of the Group comprised over 300 members focusing on the development of competitive new products. In 2008, the Group successfully launched nearly 100 new products including Spirit Sausage. These fresh, tasty, nutritious and convenient products were well received by the market.

Sales and Distribution

In order to further stabilize the sales and profitability amid the competitive environment, apart from developing products with higher profit margins and optimizing product mix as usual, the Group also strengthened its brand promotion efforts during the Review Year to boost the sales of LTMP and chilled meat. In 2008, the turnover of chilled meat reached HK$8.130 billion, representing a remarkable increase of 73.8% over that of last year and accounting for 58.3% (2007: 49.5%) of total turnover prior to inter-segment elimination and 73.9% (2007: 63.1%) of total turnover of the upstream business segment. Turnover of LTMP was HK$2.644 billion, representing an increase of 50.9% year on year which accounted for 19.0% (2007: 18.6%) of total turnover prior to inter-segment elimination and 89.8% (2007: 86.4%) of total turnover of downstream business segment.

With respect to the target markets and distribution channels, the Group continued its strategy of focusing on direct sales with distribution as a supplementary sales channel. Yurun Food also optimized its product distribution network to further extend its reach to existing and potential customers in the domestic consumer market. At the same time, the Group further strengthened its co-operation with high-end hotels and catering chains so as to enhance the profitability of the Group.

Production Facilities and Production Capacity

To tap the growing market demands for Yurun Food's products, the Group continued to increase its production capacity through selective acquisitions, upgrading its existing production facilities and constructing new plants.

With respect to its downstream business, the Group focused on complementing market coverage, reducing bottlenecks and upgrading key production facilities. Annual production capacity of the downstream meat processing segment was 258,000 tons at the end of 2008, representing a net increase of 40,000 tons as compared to that at the end of 2007.

With respect to its upstream slaughtering segment, the Group increased its production capacity by increasing its equity interests in the Hunan plant, acquiring production plants including Shangqiu and Jiamusi, etc, as well as upgrading its existing production facilities during the Review Year. The Group optimized the strategic production network across the nation and laid a solid foundation for sustaining growth in production capacity and capturing market demand. At the end of 2008, the annual slaughtering capacity of the Group was 18.05 million heads, representing a net increase of 4.00 million heads as compared to that at the end of 2007.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded a turnover of HK$13.024 billion in 2008, representing an increase of 50.8% over the turnover of HK$8.635 billion in 2007. During the Review Year, the Group recorded a net profit of HK$1.138 billion (2007: HK$859 million), representing an increase of 32.4% from that of the previous year. Diluted earnings per share has increased by 26.5% from last year's HK$0.582 to this year's HK$0.736.

TURNOVER

Processed Meat Products

For the year ended 31 December 2008, the Group offered more than 1,200 different types of processed meat products. During the Review Year, the sales of processed meat products were HK$2.946 billion (2007: HK$2.030 billion), representing an increase of 45.2%. Despite the competitive environment, the Group achieved remarkable growth thanks to its strong brand recognition, market promotion, timely price adjustments, improved product mix and the launch of products with higher profit margins.

For the year ended 31 December 2008, the turnover of LTMP was HK$2.644 billion which represents a remarkable increase of 50.9% over HK$1.753 billion of last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 89.8% (2007: 86.4%) of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$302 million (2007: HK$277 million), accounting for approximately 10.2% (2007:13.6%) of the total turnover of the processed meat segment.

Chilled and Frozen Meat

Benefited from the strategic layout of our production plants, the Group's slaughtering volume grew 8.6% from last year despite the limited hog supply for most of the time in 2008 and the challenging market conditions in the second half of 2008. The market-based pricing strategy for chilled meat products allowed the Group to adjust the price in a timely manner such that stable profit margin could be achieved during the Review Year.

In 2008, total sales generated from the upstream business (before inter-segment elimination) increased by 48.5% to HK$11.008 billion over that of last year. Sales of chilled meat soared 73.8% to HK$8.130 billion, accounting for 73.9% (2007: 63.1%) of the total turnover of the upstream business. Sales of frozen meat increased slightly by 5.2% to HK$2.877 billion, accounting for 26.1% (2007: 36.9%) of the total turnover of the upstream business.

Management Discussion and Analysis

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit of the Group increased by 38.5% from HK$1.220 billion in 2007 to HK$1.690 billion in 2008 with a gross profit margin of 13.0% (2007: 14.1%). The decline in gross profit margin was mainly due to the reduction in the gross profit margin of frozen meat.

With respect to the downstream processed meat products, the gross profit margin of LTMP has reduced slightly by 0.4 percentage point from last year's 28.4% to this year's 28.0%. The gross profit margin of HTMP was 16.8%, representing a slight increase of 0.1 percentage point year on year. The overall gross profit margin for the downstream business segment was 26.9%, an increase of 0.1 percentage point as compared to last year's 26.8%. The increase in the gross profit margin was mainly attributable to the brand recognition and improved product mix of the Group which offered it with flexibility in price adjustment of LTMP such that the Group was able to increase the sales of products with higher margin.

Management Discussion and Analysis

With respect to its upstream business, the gross profit margin of chilled and frozen meat was 9.6% and 4.3% respectively (2007: 10.7% and 6.6% respectively). The overall profit margin of the upstream business was 8.2%, down 1.0 percentage point from last year's 9.2%. The decline in gross margin of chilled meat was due to the shortage in hog supply for most of the time in 2008 and increase in the sharing of fixed cost due to the decline in slaughtering volume of the Group's plants in Sichuan after the earthquake in May 2008. Profit margin of the frozen meat segment was adversely affected by its lacking of flexibility in pricing ability and inventory risk under the economic downturn. To minimize the impact of inventory risk during hog price fluctuation, the Group continued to push forward its business strategy of increasing the proportion of chilled meat, which normally does not have any inventory. In 2008, the turnover of chilled meat accounted for 73.9% of the turnover of the upstream business, substantially increased from 63.1% last year.

OTHER OPERATING INCOME

Other operating income mainly included government subsidies and negative goodwill. During the Review Year, other operating income of the Group was HK$344 million (2007: HK$191 million), which mainly comprises the subsidies granted by the Chinese government as business incentive award of HK$99 million (2007: HK$123 million) and negative goodwill of HK$193 million (2007: HK$50 million) arising from acquisitions.

OPERATING EXPENSES

Operating expenses included distribution, administrative and other operating expenses. During the Review Year, the operating expenses of the Group were HK$859 million, up 59.2% from HK$540 million of last year. The increase was mainly attributable to higher transportation costs resulting from the increase in fuel costs, combined with an increase in advertising expenses and management costs due to the increase in staff number. Operating expenses accounted for 6.6% of the turnover of the Group, representing only a slight increase of 0.4 percentage point from 6.2% in 2007. The relatively stable operating margin reflected the Group's ability to keep operating expenses at a stable level along with its business expansion.

OPERATING PROFIT

In 2008, the operating profit of the Group was HK$1.175 billion, up 34.8% from HK$872 million in 2007.

NET FINANCE INCOME

Net finance income of the Group in 2008 was HK$64 million and that for the year 2007 was HK$41.22 million. The increase in net finance income was primarily due to exchange gains arising from the translation of assets and liabilities denominated in foreign currencies at the end of the year.

Management Discussion and Analysis

INCOME TAX

The total income tax for the year ended 31 December 2008 was HK$101 million with an effective tax rate of 8.2%, representing a slight increase compared to the income tax of HK$51 million and an effective tax rate of 5.6% in 2007. The increases in income tax and tax rate were mainly due to the implementation of the 5% income withholding tax under the new tax policy effective from January 2008 imposed on dividend received by foreign investors from their investments in foreign invested enterprises.

NET PROFIT

Taking into accounts of all the above factors, the net profit of the Group increased by 32.4% from HK$859 million in 2007 to HK$1.138 billion in 2008. Net profit margin in 2008 was 8.7%, decreased from 10.0% in 2007.

FINANCIAL RESOURCES

Major financial resources of the Group were from cash inflow generated from operating activities and bank loans. Cash inflow from operating activities in 2008 amounted to HK$1.195 billion. The Group recorded a cash balance and pledged deposits of bank loan of HK$1.808 billion as at 31 December 2008, representing a slight decrease of HK$188 million compared with that of last year.

As at 31 December 2008, the Group had HK$1.928 billion outstanding bank loans. Whilst funds were used for strategic acquisitions and investments in production facilities during the Review Year, the Group maintained prudent financial management and retained sufficient working capital for day to day operating activities and other funding requirements in 2008.

ASSETS AND LIABILITIES

As at 31 December 2008, the total assets and total liabilities of the Group were HK$8.321 billion and HK$3.086 billion respectively, representing an increase of HK$1.944 billion and HK$1.040 billion as compared to those as at 31 December 2007, respectively.

As at 31 December 2008, the equity attributable to equity holders of the Company was HK$5.215 billion, representing an increase of HK$1.076 billion as compared to HK$4.139 billion as at 31 December 2007.

As at 31 December 2008, the 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) of the Group was 28.8%, representing a slight increase from 23.5% as at 31 December 2007. However, excluding the cash balance and pledged deposits of bank loan, the net gearing ratio was only 5.4%, reflecting a healthy financial position of the Group.

As at 31 December 2008, certain properties and lease prepayments of the Group with a carrying amount of HK$45.72 million and HK$31.97 million respectively (31 December 2007: HK$123 million and HK$30.90 million respectively) were pledged against certain bank loans totalling HK$90.74 million (31 December 2007: HK$94.48 million). Bank loan facilities of the Group totalling HK$1.848 billion (31 December 2007: HK$1.112 billion), were secured by pledged deposits of HK$599 million (31 December 2007: HK$29.13 million).

HUMAN RESOURCES

As at 31 December 2008, the Group had 17,385 (2007: 14,328) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$367 million, accounting for 2.8% of the turnover of the Group (2007: HK$267 million, accounting for 3.1% 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 reward the employees. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

Biographical Details of Directors and Senior Management

Directors

Mr. Zhu Yicai, aged 45, 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 and a shareholder of Willie Holdings Limited, the controlling shareholder of the Company. Mr. Zhu founded the Group in 1993 and has 16 years of experience in the industry. Mr. Zhu studied economic management at Hefei Industrial University. In 2003, he participated in a CEO training course at China Europe International Business School.

While contributing significantly to the meat 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 43, 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 May 1996. He is overall responsible for the management of the Group's processed meat products business. Mr. Zhu is a senior engineer in the industry with 13 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. Feng Kuande, aged 53, has been an executive Director and a 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 15 years experience in the industry.

Mr. Ge Yuqi, aged 53, has been an executive Director and a 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 of the Group. Mr. Ge joined the Group in June 1997 and was responsible for the Development Department. Mr. Ge has 28 years experience in the industry.

Mr. Jiao Shuge (*alias* Jiao Zhen), aged 43, has been a non-executive Director of the Company since April 2005. He also holds directorships in certain subsidiaries of the Company. Mr. Jiao is the general manager of CDH China Fund L.P.. He holds a Bachelor's degree in Mathematics from Shandong University and a Master's degree in Engineering from the Astronautic Ministry of Industry Institute.

Mr. Jiao is currently the chairman and a non-executive director of China Mengniu Dairy Company Limited and a non-executive director of China Shanshui Cement Group Limited, both of which are listed on the main board of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). In addition, Mr. Jiao is also a non-executive director of Joyoung Company Limited, a company listed on the Shenzhen Stock Exchange.

Mr. Sun Yanjun, aged 39, is the 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's degree from Renmin University of China.

Professor Zheng Xueyi, aged 55, has been an independent non-executive Director of the Company 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. He graduated from Peking University in 1984 and obtained a Master's degree in economics, and he obtained a Doctorate degree in economics in 1989.

Biographical Details of Directors and Senior Management

Mr. Kang Woon, aged 46, has been an independent non-executive Director of the Company since April 2005. Since June 2007, Mr. Kang has also been an independent non-executive director of Anhui Conch Cement Company Limited, a company listed on the main board of the Hong Kong Stock Exchange. 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 40, has been an independent non-executive Director of the Company since April 2005. He is a certified public accountant, PRC and certified tax advisor PRC. Mr. Gao is 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. Mr. Gao graduated from Jiangsu Radio and TV University specialising in finance and accounting.

Senior Management

Miss Lee Wing Sze, **Rosa**, aged 34, is the Chief Financial Officer and Company Secretary of the Company. She joined the Group in April 2005 and has more than 13 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 Hong Kong 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.

Mr. Yu Zhangli, aged 42, joined the Group in March 1996, is the Assistant to the Chief Executive Officer. Mr. Yu is responsible for the Group's slaughtering business and has 12 years experience in the industry.

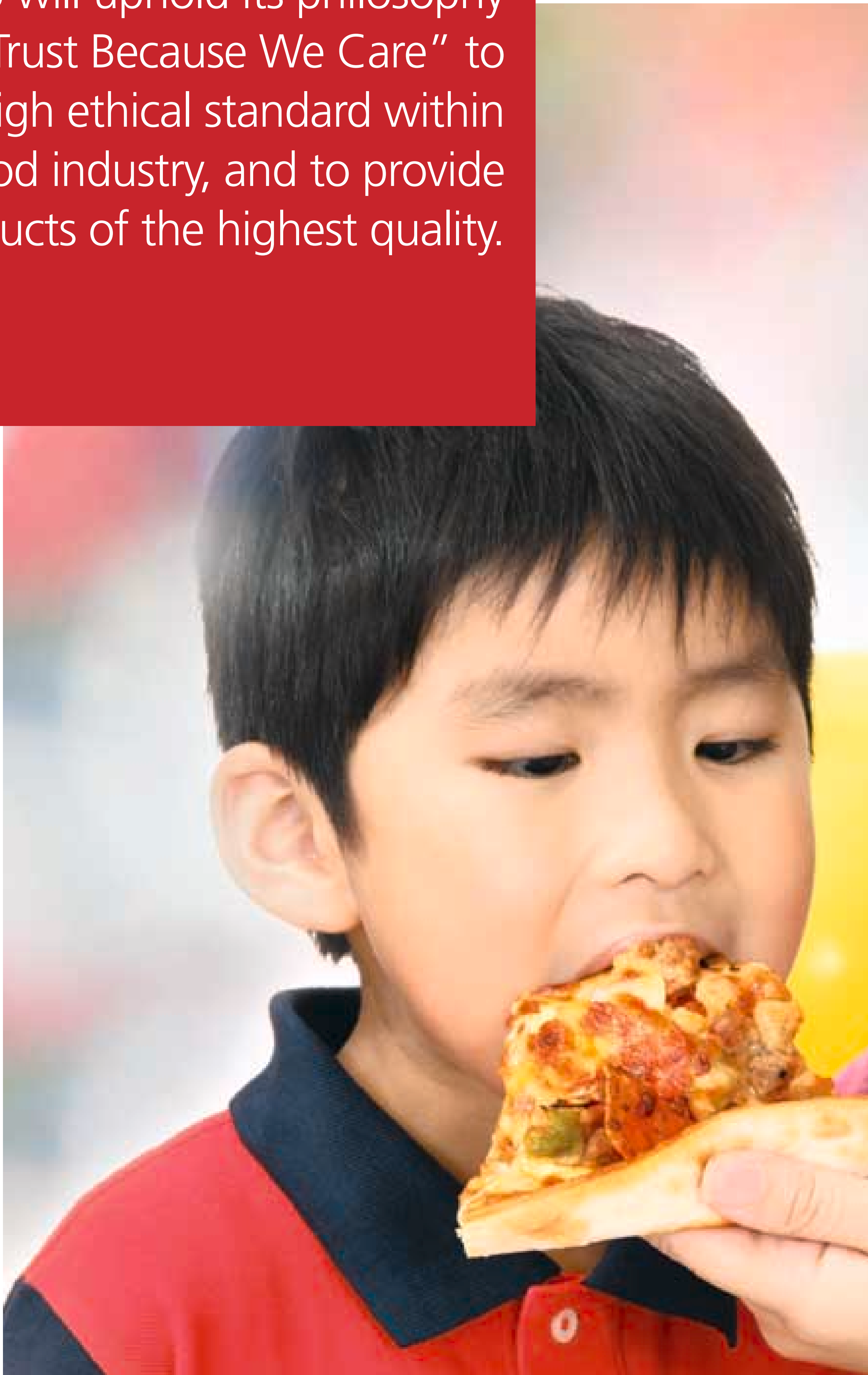
Mr. Li Shibao, aged 33, joined the Group in August 1999, is the Assistant to the Vice President and the Deputy General Manager of the Group's processed meat business division. Mr. Li is responsible for the Group's processed meat products business. He holds a Master's degree in Corporate Management from Nanjing University of Technology, a Bachelor's degree in Law from Nanjing University and a Bachelor's degree in Economics from Nanjing University of Chemical Technology. Mr. Li has 9 years experience in the industry.

Mr. Zhang Ronghua, aged 36, joined the Group in December 2004, is the Vice President of the Group's slaughtering business division. Mr. Zhang graduated from the Department of Food Science and Engineering of Nanjing University of Economics with a Bachelor's degree. He has 12 years experience in the industry.

Mr. Zhao Ning, aged 41, joined the Group in November 1996, is the Deputy General Manager of the Group's processed meat business division. Mr. Zhao is a senior engineer, a registered food safety practitioner of the China National Food Industry Association, a member and the deputy chief secretary of National Technical Committee on Meat, Poultry, Eggs and their Products of Standardization Administration of China, and a member of National Technical Committee on Products Test Methods of Standardization Administration of China. Mr. Zhao 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. He has 13 years experience in the industry.

Mr. Zhang Degang, aged 36, joined the Group in July 2000, is the General Manager of the Group's Investment Department. Mr. Zhang obtained a Master's degree in economics from Anhui University and was admitted as a PRC lawyer. He has 9 years experience in the industry.

The Group will uphold its philosophy "You Trust Because We Care" to maintain high ethical standard within the food industry, and to provide products of the highest quality.



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 2008 annual report, together with the report of the Directors and the audited financial statements of the Group for the year ended 31 December 2008.

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 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Group at that date are set out in the audited financial statements on pages 41 to 120.

The Board has recommended a final dividend of HK$0.080 (2007: HK$0.080) per share. This final dividend, together with the interim dividend of HK$0.110 (2007: HK$0.070) per share, will make a total dividend of HK$0.190 (2007: HK$0.150) for the full year ended 31 December 2008.

The final dividend will be paid on or about Thursday, 9 July 2009 to shareholders whose names appear on the Register of Members of the Company on 22 June 2009.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2008 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 34 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.

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 35 to the financial statements. Details of the movements in the reserves of the Group during the year are also included in the Consolidated Statement of Changes in Equity on page 45 of this annual report.

FINANCIAL SUMMARY

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

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$2,869,452,000, of which approximately HK$122,485,000 has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$4,622,000 (2007: approximately HK$218,000).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the largest and the five largest customers of the Group accounted for approximately 1.86% and 7.55% 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 1.44% and 4.61% respectively of the Group's total purchases for the year.

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

DIRECTORS

The Directors during the year and up to the date of this annual report (except that Mr. Zhang Yuanfei who resigned as a Director on 23 January 2009) were:

Executive Directors

Zhu Yicai [R/N]	*Chairman*	
Zhu Yiliang	*Chief Executive Officer*	
Feng Kuande		
Ge Yuqi		
Zhang Yuanfei	*Chief Operating Officer*	(Resigned on 23 January 2009)

Non-executive Directors

Jiao Shuge [A] *(alias* Jiao Zhen*)*
Sun Yanjun

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 87 of the Company's Bye-laws, Mr. Zhu Yicai, Mr. Feng Kuande and Mr. Gao Hui will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

Report of the Directors

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 16 to 17 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 2008 for a term of one year. Each of these contracts may be terminated by either party giving not less than three months' notice in writing.

Pursuant to the service contracts entered into between the Company and each of the executive Directors, each of the executive Directors is entitled to a remuneration of US$80,000 per annum. The Company received written confirmations from the executive Directors on 20 March 2009, 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 2008.

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 letter. During the year, their appointments have been renewed for one year upon their respective expiry, on substantially the same terms.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and the related party transactions are set out on pages 27 to 31 and pages 106 to 110 of this annual report respectively. Save for the above, no other Director had a material interest whether directly or indirectly in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the number of issued shares of the Company was 1,531,065,650; 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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("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	44.06%
	Willie Holdings Limited ("Willie Holdings")	Beneficial owner	Corporate	100[1]	—	100	100.00%
Zhu Yiliang	Company[2]	Beneficial owner	Personal	—	4,300,000	4,300,000	0.28%
Feng Kuande	Company[2]	Beneficial owner	Personal	—	5,000,000	5,000,000	0.33%
Ge Yuqi	Company[2]	Beneficial owner	Personal	—	4,650,000	4,650,000	0.30%
Zhang Yuanfei[3]	Company[2]	Beneficial owner	Personal	—	4,440,000	4,440,000	0.29%

Notes:

(1) Willie Holdings is owned as to 93.41% by Mr. Zhu and 6.59% by Ms. Wu Xueqin ("Ms. Wu"), 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) Mr. Zhang Yuanfei resigned as a Director and the Chief Operating Officer of the Company with effect from 23 January 2009.

(4) 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 2008, none of the Directors or/and the 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 Hong Kong Stock Exchange pursuant to the Model Code.

Report of the Directors

SHARE OPTION SCHEME

The Company 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 Share Option 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 Share Option 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 number of shares in issue of the Company as at the date of listing, and the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not exceed 30% of the number of shares in issue 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 133,752,380 shares, representing approximately 8.74% of the total number of shares of the Company in issue.

(d) Maximum entitlement of each Qualified Participant under the Share Option Scheme

Unless approved by shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Qualified Participants 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 number of shares of the Company 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 Share Option Scheme shall be a period of time to be notified by the Board to each grantee, 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 Hong Kong 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 Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares.

Report of the Directors

(h) Period of the Share Option Scheme

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option 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					Option period [(2) & (3)]
	As at 1 January 2008[(1)]	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2008	
Directors						
Zhu Yiliang	5,000,000	—	(700,000)	—	4,300,000	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	—	(350,000)	—	4,650,000	10.11.2006 – 09.11.2016
Zhang Yuanfei[(5)]	5,300,000	—	(860,000)	—	4,440,000	10.11.2006 – 09.11.2016
Subtotal	20,300,000[(4)]	—	(1,910,000)	—	18,390,000[(4)]	
Employees (other than Directors)						
In aggregate	19,250,000	—	(2,203,000)	(1,200,000)	15,847,000	10.11.2006 – 09.11.2016
Total	39,550,000	—	(4,113,000)	(1,200,000)	34,237,000	

Notes:

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

(2) The first batch of share options is subject to a restricted vesting 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 represent personal interest held by the relevant Directors as beneficial owners.

(5) Mr. Zhang Yuanfei resigned as a Director and the Chief Operating Officer of the Company with effect from 23 January 2009.

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

(7) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$12.548.

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

Report of the Directors

Information on the accounting policy for share options granted is provided in note 33 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 2008 are set out in the paragraph headed "Share Option Scheme" on pages 24 to 26 of this annual report and note 33 to the financial statements.

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

As at 31 December 2008, 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	Number of shares	Approximate percentage of the issued shares
Willie Holdings	674,658,900[(1)]	44.06%
Ms. Wu	674,658,900[(1)]	44.06%
AllianceBernstein L.P.	122,248,000[(2)]	7.98%

Notes:

(1) These shares represent the same block of shares held by Willie Holdings as beneficial owner. Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu. Ms. Wu, being the spouse of Mr. Zhu, in the capacity of interest of spouse, is deemed to be interested in the shares by virtue of SFO.

(2) AllianceBernstein L.P. was interested in 104,952,000 shares in its capacity as investment manager and was interested in 17,296,000 shares through its interests in controlled corporations.

Save as disclosed above, as at 31 December 2008, 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.

Report of the Directors

CONNECTED TRANSACTIONS

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

(A) Continuing connected transactions

Types of transactions			Amount (*HK$'000*)
1.	Distribution fee in connection with sale of the frozen convenient food and legume products of Anhui Xuerun Meat Product Co., Ltd. ("Anhui Xuerun") by the Group		3,162
2.	Supply of raw pork to Anhui Xuerun for its production use		7,240
3.	Distribution fee in connection with the sale of the Group's chilled and frozen pork by Shanghai Yurun Meat Product Co., Ltd. ("Shanghai Yurun")		14,659
4.	Purchase of raw chicken meat from Anqing Furun Poultry Product Co. Ltd. ("Anqing Furun") and Liaocheng Furun Poultry Product Co., Ltd. ("Liaocheng Furun")		26,738
5.	Leases between the Group and the Predecessor Group (as defined below) including the following:		6,302
	5.1 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")	1,239	
	5.2 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")	1,104	
	5.3 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")	411	
	5.4 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")	676	
	5.5 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")	1,577	

Report of the Directors

(A) Continuing connected transactions (con't):

Types of transactions			Amount (HK$'000)
5.6	Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Donghai Wangrun branch of Yurun Stock ("Donghai Wangrun") and Nanjing Yurun	1,070	
5.7	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")	225	
		Total:	58,101

1. *Distribution fee in connection with sale of the frozen convenient food and legume products of Anhui Xuerun by the Group*

On 12 December 2007, Anhui Xuerun entered into a distribution agreement with Nanjing Yurun. Pursuant to the agreement, Anhui Xuerun shall engage Nanjing Yurun to distribute its frozen convenient food and legume products through the network of the Group at a distribution fee of 3% of the aggregate sales amount. The distribution fee is determined by reference to market price. The terms of the distribution arrangements took effect on 1 January 2008 and will expire on 31 December 2010.

The aggregate transaction value during the year amounted to approximately HK$3,162,000, which is equivalent to 0.02% of the Group's audited turnover for the year ended 31 December 2008.

2. *Supply of raw pork to Anhui Xuerun for its production use*

On 12 December 2007, Anhui Xuerun entered into an agreement with the Company's subsidiaries, Anhui Furun Meat Processing Co., Ltd. ("Anhui Furun"), Suzhou Furun Meat Product Co., Ltd. ("Suzhou Furun") and Jiangsu Wanrun Meat Processing Co., Ltd. ("Jiangsu Wanrun"). Pursuant to the agreement, Anhui Furun, Suzhou Furun and Jiangsu Wanrun have agreed to supply raw pork that is required by Anhui Xuerun in its production. The price will be charged on a fair and reasonable basis but in any event shall not be lower than the average price at which each of Anhui Furun, Suzhou Furun and Jiangsu Wanrun supplies the same kind of raw pork to other independent third parties during the same period. The agreement is valid for three years, commencing on 1 January 2008 and ending on 31 December 2010.

The aggregate transaction value during the year amounted to approximately HK$7,240,000, which is equivalent to 0.06% of the Group's audited turnover for the year ended 31 December 2008.

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

On 12 December 2007, Shanghai Yurun entered into two distribution agreements with Anhui Furun and 20 subsidiaries of the Company. Pursuant to the distribution arrangements, Shanghai Yurun will distribute chilled and frozen pork for the Group in Shanghai at a distribution fee of 0.8% of the aggregate sales amount. The distribution fee is determined by reference to market price, being the distribution fee payable to an independent third party on normal commercial terms for distributing similar kind of products in the same or adjacent areas. The agreement is valid for three years, commencing on 1 January 2008 and ending on 31 December 2010.

The aggregate transaction value during the year amounted to approximately HK$14,659,000, which is equivalent to 0.11% of the Group's audited turnover for the year ended 31 December 2008.

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

On 12 December 2007, 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 supply raw materials to Nanjing Yurun. The price shall be determined by the relevant parties after negotiation by reference to the market price at the time an order is placed. Such price, however, shall not be higher than the average price at which Anqing Furun or Liaocheng Furun charges other independent parties for the same kind of products during that month. The agreements are valid for three years, commencing on 1 January 2008 and ending on 31 December 2010.

The aggregate transaction value during the year amounted to approximately HK$26,738,000, which is equivalent to 0.21% of the Group's audited turnover for the year ended 31 December 2008.

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

On 31 December 2004, members of the Group entered into various land and buildings lease agreements with the relevant members 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 terms of the lease agreements are 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$6,302,000, which is equivalent to 0.05% of the Group's audited turnover for the year ended 31 December 2008.

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:

5.1 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$1,239,000) per annum. The transaction value during the year amounted to approximately HK$1,239,000.

5.2 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$1,104,000) per annum. The transaction value during the year amounted to approximately HK$1,104,000.

5.3 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$411,000) per annum. The transaction value during the year amounted to approximately HK$411,000.

Report of the Directors

5.4 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$676,000) per annum. The transaction value during the year amounted to approximately HK$676,000.

5.5 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$1,577,000) per annum. The transaction value during the year amounted to approximately HK$1,577,000.

5.6 Lease of land and buildings in Donghai County, Lianyungang, Jiangsu Province between Donghai Wangrun 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 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$1,070,000) per annum. The transaction value during the year amounted to approximately HK$1,070,000.

5.7 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$225,000) per annum. The transaction value during the year amounted to approximately HK$225,000.

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 and Guangzhou Jinrun are beneficially owned by Mr. Zhu Yicai, the Chairman and controlling shareholder of the Company, and his associates. 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.

Report of the Directors

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

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

2. on normal commercial terms or on terms not more favourable than terms available to independent third parties; 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 Board has engaged the auditors of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group and has received a letter from the auditors as required under Rule 14A.38 of the Listing Rules stating that the above continuing connected 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.

(B) Non-recurring connected transaction

Acquisition of Hunan Huihong Food Company Limited ("Hunan Huihong")

On 22 December 2008, Maanshan Yurun Food Co., Ltd., a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Ms. Lin Qinghong ("Ms. Lin") to acquire 49% equity interest in Hunan Huihong for a cash consideration of RMB159,252,000 (the "Acquisition"). Prior to the Acquisition, Hunan Huihong was a non wholly-owned subsidiary of the Company engaging in the business of live hogs slaughtering. The Acquisition would enable the Company to have better management control over its upstream business after Hunan Huihong had become a wholly-owned subsidiary of the Company.

As at the date of the agreement, Hunan Huihong was a 51% owned subsidiary of the Company and the remaining 49% equity interest was owned by Ms. Lin, whom, by virtue of being a substantial shareholder of Hunan Huihong, was a connected person of the Company and therefore the Acquisition constituted a connected transaction of the Company under the Listing Rules which is subject to the reporting and announcement requirements. The transaction has been announced on 23 December 2008.

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

Report of the Directors

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

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

On 2 November 2007, the Company entered into a facility agreement (the "2007 Facility Agreement") with a syndicate of banks for a 3-year term loan facility of up to US$135 million for the capital expenditure and general corporate funding requirements of the Company and its subsidiaries. As at 31 December 2008, the loan facility under the 2007 Facility Agreement had been fully drawn.

Pursuant to the terms of the 2007 Facility Agreement, it would be an event of default if, inter alia, Mr. Zhu 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 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.

On 25 August 2008, the Company entered into a facility agreement (the "2008 Facility Agreement") with a syndicate of banks for a 3-year term loan facility of up to HK$450 million for the capital expenditure and general corporate funding requirements of the Company and its subsidiaries. As at 31 December 2008, a loan facility HK$425.4 million under the 2008 Facility Agreement had been drawn and the availability of the undrawn loan amount has expired.

Pursuant to the terms of the 2008 Facility Agreement, it would be an event of default if, inter alia, Mr. Zhu and his family members, (i) cease to own, directly or indirectly, at least 30% of the shares in the Company or (ii) cease to be the single largest shareholder of the Company; or if Mr. Zhu 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.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 39 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 as required under the Listing Rules during the year and up to the date of this annual report.

Report of the Directors

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 34 to 39 of this annual report.

AUDITORS

KPMG is appointed as auditors of the Company. 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, 23 March 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

China Yurun Food Group Limited ("Yurun Food" or the "Company", together with its subsidiaries, the "Group") is committed to achieving high standards of corporate governance to safeguard shareholders' interest and to enhance corporate value and accountability. The Company has complied throughout the period from 1 January 2008 to 31 December 2008 (the "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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). The following summarises the Company's corporate governance practices during the Review Year.

BOARD OF DIRECTORS

The Company is managed through the board of directors of the Company (the "Board" or the "Directors") which currently comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. The biographical details of the Board members are set out on pages 16 to 17 of this annual report.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies, approval of annual budgets and business plans, evaluating the performance of the Group, and overseeing the management. The Chairman also provides leadership to the Board to ensure that it acts in the best interests of the Company and its 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 Chairman ensures that the Board works effectively and objectively in the interest of the Company. Chairmen of Board committees will report to the Board after meetings and 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 Board delegates 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, is responsible for managing the businesses of the Group, including implementation of the strategies adopted by the Board for the operations of the Group.

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 in respect of management of the Board and day-to-day management of the Group's business.

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 team provides the Group with such core competencies such as industry knowledge, technical expertise, customer-based experience and knowledge in finance, accounting, business and management.

Non-executive Directors and independent non-executive Directors are selected with the necessary skills and experience to provide independent element to the Board and to contribute to the development of the Company's strategy and policies through independent, constructive and informed comments. At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. The Board has received from each independent non-executive Director a written confirmation of independence. All the independent non-executive Directors meet the independent criteria set out in Rule. 3.13 of the Listing Rules.

In accordance with the Bye-laws of the Company, all newly appointed Directors shall hold office until the next following general meeting of the Company after their appointment and shall then be eligible for re-election. Each Board member is appointed for a fixed term of one year according to their respective service contracts or letters of appointment and shall be subject to retirement by rotation at least once every three years according to the Bye-laws of the Company.

Corporate Governance Report

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. Management reviews the extent of insurance coverage on an annual basis.

During the Review Year, four regular Board meetings were held at approximately quarterly intervals to discuss the overall strategy as well as the operations and financial performance of the Group. The attendances of the regular Board meetings and the Board 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	—	—	—
Feng Kuande		4/4	—	—	—
Ge Yuqi		4/4	—	—	—
Zhang Yuanfei *(resigned on 23 January 2009)*	*(Chief Operating Officer)*	4/4	—	—	—
Non-executive Directors					
Jiao Shuge (*alias* Jiao Zhen)		4/4	4/4	—	—
Sun Yanjun		4/4	—	—	—
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

Corporate Governance Report

BOARD COMMITTEES

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with defined terms of reference in line with the CG Code (which are available for inspection upon request) since the Company's shares were listed on the Hong Kong Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice in appropriate circumstances upon request. Details of these Board committees including their composition, major responsibilities and functions and work performed during the Review Year are listed in the table below:

	Audit Committee	**Remuneration Committee**	**Nomination Committee**
Committee members	Mr. Gao Hui* *(Chairman)* Mr. Kang Woon* Mr. Jiao Shuge#	Mr. Kang Woon* *(Chairman)* Mr. Gao Hui* Mr. Zhu Yicai+	Mr. Kang Woon* *(Chairman)* Mr. Gao Hui* Mr. Zhu Yicai+
Major responsibilities and functions	• To serve as a focal point for communication among the Directors, the external auditors and the management as its duties relate to financial and other reporting, internal controls and audits • To assist the Board in fulfilling its responsibilities by providing an independent review of the financial reporting function, assessing the effectiveness of the Company's internal control system and the efficiency of the audits function	• To recommend the Board on the Group's policy and structure for the remunerations and other benefits of Directors and senior management by reference to the Group's corporate goals and objectives	• 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 • To identify and nominate for the approval of the Board candidates to fill board vacancies as and when they arise • To assess the independence of independent non-executive Directors • To make recommendations on the succession planning for Directors and senior management of the Group

Corporate Governance Report

	Audit Committee	Remuneration Committee	Nomination Committee
Work performed during the year	• Reviewed the Group's annual and interim financial statements before submission to the Board for approval • Reviewed the external auditors' letter to the management and ensured the Board provided timely responses to the issues raised therein • Reviewed the independence of the external auditors in connection with their provision of non-audit services to the Group and approved the remuneration and terms of engagement of the external auditors • Made recommendation on the re-appointment of the external auditors • Reviewed the effectiveness of the Group's financial management, internal control and risk management systems including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget • Reviewed the continuing connected transactions of the Group	• Reviewed the remuneration package of the Directors and senior management of the Group	• Reviewed the structure, size and composition (including skills, knowledge and experience) of the Board • Reviewed the terms of service of the Directors and made recommendations to the Board with regards to the continuance of their employment

* *Independent non-executive Director*
\# *Non-executive Director*
\+ *Executive Director*

Corporate Governance Report

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. The Company has made specific enquiries to all Directors and they have confirmed to the Company that they had complied with the required standard set out in the Model Code throughout the Review Year.

REMUNERATION POLICY

The Remuneration Committee has to consult the Chairman of the Company about its proposals relating to the remuneration of the 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 bonus. 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 POLICY

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

AUDITORS' REMUNERATION

Details of the fees paid or payable to the Group's external auditors for the year ended 31 December 2008 are as follows:

Services provided		**Fees**
		HK$'000
2008 Annual audit		4,358
2008 Interim review		680
Non-audit service		233
	Total:	5,271

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 assets 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 the responsibilities of 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 work based on an internal audit plan which has been 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 any issues on the internal control system of the Group are then discussed and evaluated by the Board periodically every year.

Corporate Governance Report

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 in order to respond swiftly and positively to any event that results in abrupt loss of consumer confidence. Internal control 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 of the Group, the Directors have ensured that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured that the financial statements of the Group are 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 page 40 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 for results announcement and one-on-one and group meetings with analysts and senior representatives from renowned fund management companies, participated in large investment conferences in places like China, Hong Kong, the United Kingdom, Singapore and the United States and organised site visits for shareholders and institutional investors to its manufacturing facilities in China. Yurun Food 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 Hong Kong 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, Hong Kong Stock Exchange announcements, stock price information, operation statistics, slide presentations, financial reports and so forth. 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 41 to 120, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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

23 March 2009

Consolidated Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Property, plant and equipment	18	**2,588,082**	1,779,261
Investment properties	19	**220,831**	219,585
Lease prepayments	20	**1,103,602**	722,662
Goodwill	22	**86,268**	—
Investment in an equity accounted investee	23	**2,915**	3,504
Non-current prepayments	24	**1,052,535**	233,425
Deferred tax assets	25	**10,908**	12,554
		5,065,141	2,970,991
Current assets			
Inventories	26	**703,455**	681,813
Other investments	27	**1,134**	1,073
Current portion of lease prepayments	20	**23,489**	15,451
Trade and other receivables	28	**703,954**	708,745
Income tax recoverable	12	**16,546**	3,718
Pledged deposits	30,32	**598,525**	29,728
Cash and cash equivalents	29	**1,209,092**	1,965,966
		3,256,195	3,406,494
Current liabilities			
Bank loans	30	**1,095,049**	267,571
Finance lease liabilities	31	**496**	459
Trade and other payables	32	**902,846**	755,958
Income tax payable	12	**19,776**	19,021
		2,018,167	1,043,009
Net current assets		**1,238,028**	2,363,485
Total assets less current liabilities		**6,303,169**	5,334,476

Consolidated Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current liabilities			
Bank loans	30	**833,062**	826,430
Finance lease liabilities	31	**177,967**	177,206
Deferred tax liabilities	25	**57,045**	—
		1,068,074	1,003,636
Net assets		**5,235,095**	4,330,840
Equity			
Share capital	34	**153,107**	152,695
Reserves	35	**5,061,849**	3,986,480
Total equity attributable to equity holders of the Company		**5,214,956**	4,139,175
Minority interests		**20,139**	191,665
Total equity		**5,235,095**	4,330,840

Approved and authorised for issue by the Board of Directors on 23 March 2009

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 48 to 120 are an integral part of these financial statements.

Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Investments in subsidiaries	21	**704,463**	698,659
Current assets			
Other receivables	28	**343**	203
Amounts due from subsidiaries		**3,639,542**	3,533,468
Pledged deposits	30	**250,749**	29,128
Cash and cash equivalents	29	**40,610**	7,997
		3,931,244	3,570,796
Current liabilities			
Bank loans	30	**843,586**	183,830
Other payables	32	**13,984**	7,625
		857,570	191,455
Net current assets		**3,073,674**	3,379,341
Total assets less current liabilities		**3,778,137**	4,078,000
Non-current liabilities			
Bank loans	30	**755,578**	740,542
Net assets		**3,022,559**	3,337,458
Equity			
Share capital	34	**153,107**	152,695
Reserves	35	**2,869,452**	3,184,763
Total equity		**3,022,559**	3,337,458

Approved and authorised for issue by the Board of Directors on 23 March 2009

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 48 to 120 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Turnover	8	**13,023,901**	8,635,117
Cost of sales		**(11,333,916)**	(7,414,760)
Gross profit		**1,689,985**	1,220,357
Other operating income	9	**344,166**	190,725
Distribution expenses		**(546,580)**	(351,017)
Administrative and other operating expenses		**(312,329)**	(188,504)
Results from operating activities		**1,175,242**	871,561
Finance income		**136,931**	63,386
Finance expenses		**(72,930)**	(22,168)
Net finance income	10(a)	**64,001**	41,218
Share of loss of an equity accounted investee (net of income tax)	23	**(781)**	(761)
Profit before income tax	10	**1,238,462**	912,018
Income tax expense	11	**(101,449)**	(51,189)
Profit for the year		**1,137,013**	860,829
Attributable to:			
Equity holders of the Company		**1,137,781**	859,319
Minority interests		**(768)**	1,510
Profit for the year		**1,137,013**	860,829
Dividends payable to equity holders of the Company attributable to the year	16		
Interim dividend declared during the year		**168,417**	106,887
Dividends proposed after the balance sheet date		**122,485**	122,156
		290,902	229,043
Earnings per share			
Basic	17(a)	**$0.744**	$0.584
Diluted	17(b)	**$0.736**	$0.582

The notes on pages 48 to 120 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company										
		Share capital (Note 34)	Share premium (Note 35(b))	Capital surplus (Note 35(c))	Merger reserve (Note 35(d))	PRC statutory reserves (Note 35(e))	Fair value reserve (Note 35(f))	Exchange reserve (Note 35(g))	Retained earnings	Total	Minority interests	Total equity
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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	34(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(a)(viii)	—	—	—	—	—	—	—	—	—	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	25(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	33	—	—	—	—	—	—	—	25,469	25,469	—	25,469
Transfer to reserves		—	—	—	—	109,686	—	—	(109,686)	—	—	—
Dividends approved and paid 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
At 1 January 2008		**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**
Shares issued under share option scheme	34(a)	**412**	**36,176**	—	—	—	—	—	**(5,905)**	**30,683**	—	**30,683**
Acquisition of minority interests	7(b)	—	—	—	**1,604**	—	**(973)**	—	—	**631**	**(181,610)**	**(180,979)**
Foreign currency translation		—	—	—	—	—	—	**183,328**	—	**183,328**	**10,852**	**194,180**
Profit attributable to equity holders of the Company for the year		—	—	—	—	—	—	—	**1,137,781**	**1,137,781**	**(768)**	**1,137,013**
Share based payments	33	—	—	—	—	—	—	—	**14,194**	**14,194**	—	**14,194**
Transfer to reserves		—	—	—	—	**105,991**	—	—	**(105,991)**	—	—	—
Dividends approved and paid during the year	16	—	—	—	—	—	—	—	**(290,836)**	**(290,836)**	—	**(290,836)**
At 31 December 2008		**153,107**	**2,425,667**	**3,887**	**(112,202)**	**297,837**	**(1,932)**	**484,744**	**1,963,848**	**5,214,956**	**20,139**	**5,235,095**

The notes on pages 48 to 120 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Cash flows from operating activities			
Profit for the year		**1,137,013**	860,829
Adjustments for:			
- Depreciation		**109,397**	75,178
- Amortisation of lease prepayments		**19,785**	8,006
- Reversal of impairment loss on trade and other receivables		**(1,302)**	(8,660)
- Interest income		**(41,263)**	(15,464)
- Finance expenses		**72,930**	22,168
- Share of loss of an equity accounted investee		**781**	761
- Loss on disposal of property, plant and equipment		**6,699**	4,847
- Recognition of negative goodwill		**(192,870)**	(49,976)
- Equity-settled share based payment transaction		**14,194**	25,469
- Unrealised foreign exchange gain		**(82,726)**	(44,450)
- Income tax expense		**101,449**	51,189
Operating profit before change in working capital		**1,144,087**	929,897
Change in inventories		**16,789**	(102,770)
Change in trade and other receivables		**43,498**	(146,524)
Change in trade and other payables		**111,618**	126,632
Cash generated from operating activities		**1,315,992**	807,235
Finance expenses paid		**(66,355)**	(15,953)
Income tax paid		**(54,907)**	(42,911)
Net cash from operating activities		**1,194,730**	748,371

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**248**	11,784
Proceeds from sale of other investments		**—**	1,000
Proceeds from sale of held-to-maturity investments		**247,493**	—
Interest received		**22,478**	15,464
Contributions from minority interests		**—**	3,113
Acquisition of property, plant and equipment		**(1,307,352)**	(671,228)
Payments for lease prepayments		**(266,274)**	(308,575)
Business acquisitions, net of cash acquired	7	**(309,108)**	(327,965)
Acquisition of minority interests		**(180,979)**	—
Prepayments of business acquisitions	24	**—**	(38,693)
Acquisition of held-to-maturity investments		**(228,708)**	—
Net cash used in investing activities		**(2,022,202)**	(1,315,100)
Cash flows from financing activities			
Net proceeds from issuance of new shares		**30,683**	770,865
Proceeds from bank loans		**1,121,740**	1,257,283
Repayments of bank loans		**(298,105)**	(258,541)
Capital element of finance lease rentals paid		**(491)**	(429)
Interest element of finance lease rentals paid		**(6,575)**	(6,215)
Changes in pledged deposits		**(566,346)**	(26,537)
Dividend paid		**(290,836)**	(167,869)
Net cash (used in)/from financing activities		**(9,930)**	1,568,557
Net (decrease)/increase in cash and cash equivalents		**(837,402)**	1,001,828
Cash and cash equivalents at 1 January		**1,965,966**	843,956
Effect of exchange rate fluctuations on cash held		**80,528**	120,182
Cash and cash equivalents at 31 December	29	**1,209,092**	1,965,966

The notes on pages 48 to 120 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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 2008 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 23 March 2009.

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"). These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional currency. 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.

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 41.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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 recognised initially 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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

3 Significant accounting policies *(continued)*

(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 the 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.

(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 the consolidated income statement, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are classified as amortised cost using effective interest method, less any impairment losses (see accounting policy (j)).

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)).

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

3 Significant accounting policies *(continued)*

(c) Financial instruments (continued)

(i) Non-derivative financial instruments *(continued)*

Other

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

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the 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. The cost of construction of qualifying assets under a turnkey arrangement is capitalised when the qualifying assets are in a ready-to-use condition and turned over to the Group by the turnkey vendors. 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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 (see accounting policy (j)). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

3 Significant accounting policies *(continued)*

(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.

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.

Individually 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

3 Significant accounting policies *(continued)*

(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.

(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.

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.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible assets).

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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.

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 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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 7.55% (2007: 8.17%) 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 payment and delivery terms and conditions are offered. Credit limits are established for each customer, which represent 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 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.

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

5 Financial risk management *(continued)*

(d) Market risk (continued)

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 foreign exchange rate fluctuations 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 communications with animal epidemic prevention supervisory departments and implemented the animal epidemic prevention policies promulgated by the supervisory departments.

(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 2008 was 21.8% (2007: 20.8%).

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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.

Geographical segment

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

6 Segment reporting *(continued)*

(a) *Revenue and expenses*

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**10,077,726**	6,605,537	**2,946,175**	2,029,580	**—**	—	**13,023,901**	8,635,117
Inter-segment revenue	**930,077**	807,759	**—**	—	**(930,077)**	(807,759)	**—**	—
Total segment revenue	**11,007,803**	7,413,296	**2,946,175**	2,029,580	**(930,077)**	(807,759)	**13,023,901**	8,635,117
Segment results	**860,700**	619,966	**343,984**	293,715	**(1,236)**	(6,089)	**1,203,448**	907,592
Unallocated income and expenses							**(28,206)**	(36,031)
Operating profit							**1,175,242**	871,561
Net finance income							**64,001**	41,218
Share of loss of an equity accounted investee							**(781)**	(761)
Income tax expense							**(101,449)**	(51,189)
Profit for the year							**1,137,013**	860,829
Depreciation and amortisation for the year	**76,464**	45,135	**52,565**	38,034	**—**	—	**129,029**	83,169
Unallocated depreciation and amortisation for the year							**153**	15
							129,182	83,184
Significant non-cash expenses/(income) (other than depreciation and amortisation)	**1,555**	(289)	**880**	(992)	**—**	—	**2,435**	(1,281)
Unallocated significant non-cash expenses (other than depreciation and amortisation)							**10,457**	18,090
							12,892	16,809

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

6 Segment reporting *(continued)*

(b) Assets and liabilities

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**4,921,572**	3,289,073	**1,746,374**	1,461,228	**(188,645)**	(389,737)	**6,479,301**	4,360,564
Investment in an equity accounted investee	**—**	—	**2,915**	3,504	**—**	—	**2,915**	3,504
Unallocated assets							**1,839,120**	2,013,417
Total assets							**8,321,336**	6,377,485
Segment liabilities	**(498,891)**	(388,434)	**(387,076)**	(734,927)	**172,361**	375,503	**(713,606)**	(747,858)
Unallocated liabilities							**(2,372,635)**	(1,298,787)
Total liabilities							**(3,086,241)**	(2,046,645)
Capital expenditure incurred during the year	**1,645,097**	1,133,812	**417,529**	212,634			**2,062,626**	1,346,446
Unallocated capital expenditure incurred during the year							**1,087**	15
							2,063,713	1,346,461

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

7 Acquisitions of subsidiaries and minority interests

(a) *Business combinations*

(i) Keshan Meat Processing Factory* ("Keshan")

On 30 June 2008, the Group acquired the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Keshan from the Heilongjiang Province Keshan Local County Government(黑龍江省克山縣人民政府), at a consideration of $11,000 and injected the relevant business operations and assets into Qiqihar Wanrun Food Co., Ltd. Details of Keshan are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 31 December 2008 $'000	Principal activities
Keshan 克山肉聯廠	43,416	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.

	Note	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment	18	19,032	10,681	8,351
Lease prepayments		25,276	25,161	115
Current assets		309	—	309
Net identified assets acquired		44,617	35,842	8,775
Consideration		(11)		
Negative goodwill arising on acquisition	9	44,606		

For the year ended 31 December 2008, the fair values to be assigned to the identifiable assets and liabilities can only be determined provisionally. Management is in the midst of reassessing the fair values of the identifiable assets and liabilities at the acquisition date. Management would recognise any adjustments to the provisional values of the acquired identifiable assets and liabilities on a retrospective basis from the acquisition date before 30 June 2009.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

7 Acquisitions of subsidiaries and minority interests *(continued)*

(a) Business combinations (continued)

(i) Keshan Meat Processing Factory* *(continued)*

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2008. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2008.

Prior to the acquisition, Keshan 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.

(ii) Changchun Food Group Company* ("Changchun Food")

On 28 December 2006, the Group entered into an acquisition agreement with the Changchun Kuancheng District Finance Bureau (長春市寬城區財政局) to acquire the business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Changchun Food at a consideration of $43,339,000. The transfer of assets was completed on 25 September 2008. Details of Changchun Food are as follows:

Name of company	**Results contributed by the acquired business from the date of acquisition to 31 December 2008** $'000	**Principal activities**
Changchun Food 長春市食品集團公司	149,626	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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

7 Acquisitions of subsidiaries and minority interests *(continued)*

(a) Business combinations (continued)

(ii) Changchun Food Group Company* ("Changchun Food") *(continued)*

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

	Note	**Recognised values on acquisition** $'000	**Fair value adjustments** $'000	**Pre-acquisition carrying amounts** $'000
Property, plant and equipment	18	92,461	43,261	49,200
Lease prepayments		99,142	66,219	32,923
Net identified assets acquired		191,603	109,480	82,123
Negative goodwill arising on acquisition	9	(148,264)		
Consideration		43,339		
Less: Prepayment made in prior year		(41,060)		
Cash paid for the acquisition in current year		2,279		

For the year ended 31 December 2008, the fair values to be assigned to the identifiable assets and liabilities can only be determined provisionally. Management is in the midst of reassessing the fair values of the identifiable assets and liabilities at the acquisition date. Management would recognise any adjustments to the provisional values of the acquired identifiable assets and liabilities on a retrospective basis from the acquisition date before 25 September 2009.

If the acquisition had occurred on 1 January 2008, management estimates that consolidated revenue for the year would not be significantly different and the consolidated profit for the year would have been $1,134,945,000 In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2008.

Prior to the acquisition, Changchun Food 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 Acquisitions of subsidiaries and minority interests *(continued)*

(a) Business combinations (continued)

(iii) Shangqiu Tianhui Food Co., Ltd.* ("Shangqiu Tianhui")

On 24 October 2008, the Group acquired the entire equity interest of Shangqiu Tianhui at a cash consideration of $306,818,000. Details of Shangqiu Tianhui at 31 December 2008 are as follows:

Name of company	Registered capital	Results contributed by the company from the date of acquisition to 31 December 2008 $'000	Principal activities
Shangqiu Tianhui 商丘天暉肉類加工有限公司	Rmb10,000,000	(1,262)	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.

	Note	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment	18	155,298	113,450	41,848
Other non-current assets		65,252	30,495	34,757
Net identified assets acquired		220,550	143,945	76,605
Consideration		(306,818)		
Goodwill arising on acquisition		(86,268)		

For the year ended 31 December 2008, the fair values to be assigned to the identifiable assets and liabilities can only be determined provisionally. Management is in the midst of reassessing the fair values of the identifiable assets and liabilities at the acquisition date. Management would recognise any adjustments to the provisional values of the acquired identifiable assets and liabilities on a retrospective basis from the acquisition date before 24 October 2009.

If the acquisition had occurred on 1 January 2008, management estimates that consolidated revenue for the year would not be significantly different and the consolidated profit for the year would have been $1,132,853,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2008.

Goodwill arose in the business combination because of the expected synergies and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be measured reliably.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

7 Acquisitions of subsidiaries and minority interests *(continued)*

(a) *Business combinations (continued)*

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

On 5 January 2007, the Group acquired the entire equity interest of Xinyu Runhe at a cash consideration of $70,693,000. 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.

	Note	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment	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 Acquisitions of subsidiaries and minority interests *(continued)*

(a) Business combinations (continued)

(v) 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 the Shandong Province Shanghe County Economic and Trade Commission (山東商河縣經濟貿易局), at a cash consideration of $100,000 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.

	Note	**Recognised values on acquisition** $'000	**Fair value adjustments** $'000	**Pre-acquisition carrying amounts** $'000
Property, plant and equipment	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	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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

7 Acquisitions of subsidiaries and minority interests *(continued)*

(a) *Business combinations (continued)*

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

On 14 February 2007, the Group acquired the entire equity interest of Lixian Huatai at a cash consideration of $59,048,000. 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.

	Note	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment	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 occurred 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

7 Acquisitions of subsidiaries and minority interests *(continued)*

(a) Business combinations (continued)

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

On 24 May 2007, the Group acquired the entire equity interest of Dujiangyan Xiangrui at a cash consideration of $100,660,000. 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.

	Note	**Recognised values on acquisition** $'000	**Fair value adjustments** $'000	**Pre-acquisition carrying amounts** $'000
Property, plant and equipment	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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

7 Acquisitions of subsidiaries and minority interests *(continued)*

(a) Business combinations (continued)

(viii) 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. 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.

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

	Note	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment	18	36,668	1,179	35,489
Investment properties	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 Acquisitions of subsidiaries and minority interests *(continued)*

(b) Acquisition of minority interests

On 22 December 2008, the Group acquired an additional 49% equity in Hunan Huihong for $180,979,000 satisfied in cash, increasing its ownership from 51% to 100%. The carrying amount of Hunan Huihong's net assets in the consolidated financial statements on the date of the acquisition was $370,634,000. Accordingly, the Group recognised a decrease in minority interests of $181,610,000, and the difference between the consideration and carrying values of minority interests of $631,000 as a reserve movement. The consideration of the acquisition was arrived at after arm's length negotiations on normal commercial terms with reference to valuation performed by an independent valuer.

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

	Note	2008 $'000	2007 $'000
Government subsidies		**99,017**	122,991
Recognition of negative goodwill arising on business combinations	7(a)	**192,870**	49,976
Rental income		**17,899**	4,256
Sales of scrap		**3,236**	2,488
Sundry income		**31,144**	11,014
		344,166	190,725

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

10 Profit before income tax

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

		2008 $'000	2007 $'000
(a)	Net finance income:		
	Interest on bank loans wholly repayable within five years	**65,001**	14,787
	Bank charges	**1,354**	1,166
	Interest on lease obligation	**6,575**	6,215
	Interest income on held-to-maturity investments	**(18,785)**	—
	Foreign exchange gain	**(95,668)**	(47,922)
	Interest income	**(22,478)**	(15,464)
		(64,001)	(41,218)
(b)	Personnel expenses:		
	Salaries, wages and other benefits	**334,635**	231,440
	Contributions to defined contribution schemes	**18,445**	9,671
	Equity-settled share-based payment	**14,194**	25,469
		367,274	266,580

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% (2007: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2008.

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

10 Profit before income tax *(continued)*

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

	2008 **$'000**	2007 $'000
(c) Other items:		
Cost of inventories #	**11,333,916**	7,414,760
Impairment losses on trade and other receivables	**11,375**	3,360
Reversal of impairment losses on trade and other receivables	**(12,677)**	(12,020)
Depreciation	**109,397**	75,178
Loss on disposal of property, plant and equipment	**6,699**	4,847
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**3,067**	1,223
– contingent rent	**4,628**	4,972
Amortisation of lease prepayments	**19,785**	8,006
Research and development expenses	**9,882**	3,530
Auditors' remuneration	**5,271**	4,599

\# Cost of inventories includes $215,583,000 (2007: $163,846,000) 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	**2008** **$'000**	2007 $'000
Current tax expense			
Current year		**38,318**	49,821
Under-provision in respect of prior years		**3,746**	197
		42,064	50,018
Deferred tax expense			
Change in tax rate		**—**	759
Originating and reversal of temporary differences		**59,385**	412
	25(b)	**59,385**	1,171
Income tax expense in the consolidated income statement		**101,449**	51,189

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

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 2008 and 2007.

(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 25% during the year ended 31 December 2008 (2007: 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 following three years. According to the new PRC tax law and its interpretation rules which are effective from 1 January 2008 ("new PRC tax law"), the tax holiday is deemed to start from 1 January 2008, even if the companies are not yet recording profit and the unutilised tax holidays can continue until expiry.

(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 an 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.

According to the new PRC tax law, all enterprises engaged in the primary processing of agricultural products will be exempted from PRC enterprise income tax. As a result, all subsidiaries engaged in slaughtering are exempted from PRC enterprise income tax for the year ended 31 December 2008.

(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) Under the new PRC tax law, 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 are 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. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

11 Income tax expense *(continued)*

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

(e) Under the new PRC tax law, 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 would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

Reconciliation of effective tax rate

	2008		2007	
	$'000	**%**	$'000	%
Profit before income tax	**1,238,462**		912,018	
Income tax using the PRC enterprise income tax rate of 25% (2007:33%)	**309,615**	**25.0**	300,966	33.0
Effect of tax rate differential	**7,048**	**0.6**	10,829	1.2
Effect of change in tax rates	**—**	**—**	759	0.1
Non-taxable income	**(62,031)**	**(5.0)**	(45,304)	(5.0)
Non-deductible expenses	**28,001**	**2.2**	19,078	2.1
Under provision in respect of prior years	**3,746**	**0.3**	197	—
Recognition of deferred tax liabilities of retained earnings of subsidiaries and interest payment from PRC subsidiaries	**57,045**	**4.6**	—	—
Effect of tax concessions	**(241,975)**	**(19.5)**	(235,336)	(25.8)
Income tax expense	**101,449**	**8.2**	51,189	5.6

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

12 Income tax recoverable/payables

Current taxation in the consolidated balance sheet represents:

	The Group	
	2008	2007
	$'000	$'000
At beginning of the year	**(15,303)**	(7,337)
Provision for PRC enterprise income tax for the year	**(38,318)**	(49,821)
Under provision in respect of prior years	**(3,746)**	(197)
PRC enterprise income tax paid	**54,907**	42,911
Effect of movements in exchange rates	**(770)**	(859)
At end of the year	**(3,230)**	(15,303)
Represented by:		
Income tax recoverable	**16,546**	3,718
Income tax payable	**(19,776)**	(19,021)
	(3,230)	(15,303)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

13 Directors' remuneration

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

	2008						
	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	—	2,401	37	—	2,438	—	2,438
Zhu Yiliang	—	486	37	—	523	2,066	2,589
Zhang Yuanfei	—	474	—	—	474	2,191	2,665
Feng Kuande	—	230	9	—	239	2,067	2,306
Ge Yuqi	—	406	37	—	443	2,067	2,510
Non-executive directors							
Jiao Shuge (*alias* Jiao Zhen)	—	—	—	—	—	—	—
Sun Yanjun	—	—	—	—	—	—	—
Independent non-executive directors							
Zheng Xueyi	180	—	—	—	180	—	180
Kang Woon	180	—	—	—	180	—	180
Gao Hui	180	—	—	—	180	—	180
Total	540	3,997	120	—	4,657	8,391	13,048

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

13 Directors' remuneration *(continued)*

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

	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 (*alias* Jiao Zhen)	—	—	—	—	—	—	—
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

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 33.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

14 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2007: four) are directors whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining one individual (2007: one) are as follows:

	2008 **$'000**	2007 $'000
Salaries and other emoluments	**1,380**	1,671
Contributions to retirement benefit schemes	**12**	12
Share-based payments	**2,067**	3,030
	3,459	4,713

The emoluments of the individual with the highest emoluments are within the band of $3,000,001 to $3,500,000 (2007: $4,500,001 to $5,000,000).

15 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of $68,940,000 (2007: profit of $538,184,000) 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

	2008 **$'000**	2007 $'000
Interim dividend declared and paid of $0.110 (2007: $0.070) per share	**168,417**	106,887
Final dividend proposed after the balance sheet date of $0.080 (2007: $0.080) per share	**122,485**	122,156
	290,902	229,043

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

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

	2008 **$'000**	2007 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.080 (2007: $0.042) per share	**122,419**	60,982

In respect of the dividends attributable to the year end 31 December 2007, the difference between the final dividend proposed and the amount approved and paid during the year represents the additional dividends distributed to the holders of shares which were issued upon the exercise of share options under the share option scheme before the closing date of the register of members.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

17 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity holders of the Company for the year of $1,137,781,000 (2007: $859,319,000) and the weighted average number of 1,529,635,000 (2007: 1,470,240,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Note	**2008** **'000**	2007 '000
Issued ordinary shares at 1 January		**1,526,953**	1,451,953
Effect of new shares issued	34	**2,682**	18,287
Weighted average number of ordinary shares		**1,529,635**	1,470,240

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity holders of the Company for the year of $1,137,781,000 (2007:$859,319,000) and the weighted average number of 1,545,133,000 (2007:1,476,779,000) shares (diluted), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Note	**2008** **'000**	2007 '000
Weighted average number of ordinary shares		**1,529,635**	1,470,240
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	33	**15,498**	6,539
Weighted average number of ordinary shares (diluted)		**1,545,133**	1,476,779

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

18 Property, plant and equipment

The Group

	Note	Properties $'000	Machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Cost:							
At 1 January 2007		648,800	456,010	35,699	26,782	94,426	1,261,717
Acquisitions through business combinations	7(a)	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	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
At 1 January 2008		**970,126**	**611,588**	**45,680**	**41,393**	**518,111**	**2,186,898**
Acquisitions through business combinations	7(a)	**248,733**	**15,596**	**1,828**	**634**	**—**	**266,791**
Other acquisitions		**15,655**	**84,463**	**19,093**	**14,805**	**412,920**	**546,936**
Transfers		**297,768**	**151,481**	**—**	**856**	**(450,105)**	**—**
Disposals		**(15,589)**	**(12,452)**	**(3,887)**	**(1,079)**	**—**	**(33,007)**
Effect of movements in exchange rates		**58,681**	**36,158**	**2,700**	**2,554**	**34,755**	**134,848**
At 31 December 2008		**1,575,374**	**886,834**	**65,414**	**59,163**	**515,681**	**3,102,466**

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

18 Property, plant and equipment *(continued)*

The Group (continued)

	Note	Properties $'000	Machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Accumulated depreciation:							
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	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
At 1 January 2008		**191,595**	**180,195**	**19,921**	**15,926**	**—**	**407,637**
Depreciation charge for the year		**37,932**	**51,944**	**5,239**	**7,207**	**—**	**102,322**
Disposals		**(7,274)**	**(7,871)**	**(3,613)**	**(437)**	**—**	**(19,195)**
Effect of movements in exchange rates		**11,048**	**10,496**	**1,132**	**944**	**—**	**23,620**
At 31 December 2008		**233,301**	**234,764**	**22,679**	**23,640**	**—**	**514,384**
Carrying amounts:							
At 31 December 2008		**1,342,073**	**652,070**	**42,735**	**35,523**	**515,681**	**2,588,082**
At 31 December 2007		778,531	431,393	25,759	25,467	518,111	1,779,261

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of $291,419,000 (2007: $181,900,000) at 31 December 2008 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 $33,630,000 (2007: $37,172,000) at 31 December 2008, are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

18 Property, plant and equipment *(continued)*

The Group *(continued)*

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.

Certain assets under finance leases were acquired by the Group subsequent to the Reorganisation. At 31 December 2008, the carrying amount of leased property, plant and equipment was $141,603,000 (2007: $140,227,000).

Security

At 31 December 2008, certain properties with a carrying amount of $45,717,000 (2007: $123,139,000) were pledged against bank loans (see note 30).

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

19 Investment properties

		The Group	
	Note	**2008** **$'000**	2007 $'000
Cost:			
At 1 January		**222,053**	—
Acquisition through business combinations	7(a)	**—**	202,112
Reclassification from property, plant and equipment	18	**—**	16,025
Disposals		**(4,070)**	—
Effect of movements in exchange rates		**12,527**	3,916
At 31 December		**230,510**	222,053
Accumulated depreciation:			
At 1 January		**2,468**	—
Reclassification from property, plant and equipment	18	**—**	1,707
Charge for the year		**7,075**	728
Disposals		**(54)**	—
Effect of movements in exchange rates		**190**	33
At 31 December		**9,679**	2,468
Carrying amounts:			
At 31 December		**220,831**	219,585

Investment properties comprise a number of buildings that are leased to third parties. All of the investment properties of the Group represent cold storage and are situated in the PRC. The Group leases out investment properties under operating leases. The leases typically carry rentals 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 2008 based on the valuation performed by an independent external valuer during the year.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

20 Lease prepayments

The lease prepayments represent cost of the land use rights in respect of land located in the PRC, on which the Group built its factory plants and buildings. The remaining period of the land use rights of the Group ranges from 44 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 $817,000 as at 31 December 2008 (2007: $789,000) are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

At 31 December 2008, land use rights with a carrying amount of $31,966,000 (2007: $30,895,000) were pledged against bank loans (see note 30).

21 Investments in subsidiaries

	The Company	
	2008	2007
	$'000	$'000
Unlisted shares, at cost	**704,463**	698,659

Particulars of the subsidiaries are set out in Appendix 1 on pages 114 to 120.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

22 Goodwill

		The Group
		2008
	Note	$'000
At 1 January		—
Acquisitions through business combinations	7	86,268
At 31 December		86,268

Impairment testing for cash generating unit (CGU) containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Goodwill recognised through business combinations during the year was allocated to the chilled and frozen meat segment. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on a financial forecast covering a period of five years. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for the value-in-use calculations

	The Group
	2008
	%
– Gross margin	8
– Growth rate	15
– Discount rate	15

Management determined the budgeted gross margin based on past performance and its expectation for market development in a conservative manner. The growth rate used is consistent with the Group's forecast. The discount rate used is pre-tax and reflects specific risks relating to the relevant segment.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

23 Investment in an equity accounted investee

	The Group	
	2008	2007
	$'000	$'000
Share of net assets	**2,915**	3,504

Details of the equity accounted investee at 31 December 2008 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	Liabilities	Equity	Revenue	Loss
	$'000	$'000	$'000	$'000	$'000
2008					
100%	**14,535**	**2,876**	**11,659**	**13,901**	**(3,125)**
Group's effective interest	**3,634**	**719**	**2,915**	**3,475**	**(781)**
2007					
100%	14,787	771	14,016	835	(3,042)
Group's effective interest	3,697	193	3,504	209	(761)

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

24 Non-current prepayments

	The Group	
	2008	2007
	$'000	$'000
Prepayments for acquisitions of land use rights	**247,791**	155,507
Prepayments for acquisitions of property, plant and equipment	**39,532**	39,225
Prepayments for turnkey projects	**765,212**	—
Prepayments for business acquisitions	**—**	38,693
	1,052,535	233,425

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 at a consideration of $43,339,000. The acquisition was completed during the year (note 7(a)).

At 31 December 2008, the Group prepaid fully for certain turnkey projects in respect of the construction of new production plants undertaken by certain business associates in various locations in the PRC which are expected to be completed by the end of 2009. Mr. Zhu Yicai, a director and beneficial shareholder of the Company has undertaken to indemnify the Group for any losses should the turnkey projects not be delivered to the Group on or before the expected completion date or at the prescribed technical specifications.

25 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2008 are attributable to the following:

	The Group					
	Assets		Liabilities		Net	
	2008	2007	**2008**	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Property, plant and equipment	**9,182**	11,147	**—**	—	**9,182**	11,147
Impairment loss on trade and other receivables	**1,726**	1,407	**—**	—	**1,726**	1,407
Withholding tax for interest payment from PRC subsidiaries	**—**	—	**(1,106)**	—	**(1,106)**	—
Withholding tax for dividend from PRC subsidiaries	**—**	—	**(55,939)**	—	**(55,939)**	—
Total deferred tax assets/ (liabilities)	**10,908**	12,554	**(57,045)**	—	**(46,137)**	12,554
Set off of tax under the same tax jurisdiction	**—**	—	**—**	—	**—**	—
Net deferred tax assets/ (liabilities)	**10,908**	12,554	**(57,045)**	—	**(46,137)**	12,554

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

25 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 2007 $'000	Recognised in reserve $'000	Recognised in income $'000	Exchange difference $'000	At 31 December 2007 $'000	**Recognised in income $'000**	**Exchange difference $'000**	**At 31 December 2008 $'000**
Property, plant and equipment	15,871	(4,251)	(989)	516	11,147	**(2,577)**	**612**	**9,182**
Impairment loss on trade and other receivables	2,631	(83)	(1,265)	124	1,407	**237**	**82**	**1,726**
Accrued expenses	(1,054)	—	1,083	(29)	—	**—**	**—**	**—**
Withholding tax for interest payment from PRC subsidiaries	—	—	—	—	—	**(1,106)**	**—**	**(1,106)**
Withholding tax for dividend for PRC subsidiaries	—	—	—	—	—	**(55,939)**	**—**	**(55,939)**
Total	17,448	(4,334)	(1,171)	611	12,554	**(59,385)**	**694**	**(46,137)**

26 Inventories

	The Group	
	2008 $'000	2007 $'000
Raw materials	**186,794**	168,761
Work in progress	**87,066**	61,004
Finished goods	**429,595**	452,048
	703,455	681,813

27 Other investments

	The Group	
	2008 $'000	2007 $'000
Available-for-sale financial assets, at fair value	**1,134**	1,073

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

28 Trade and other receivables

		The Group		The Company	
	Note	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Trade and bills receivables	28(a)	**445,165**	501,356	**—**	—
Value-added tax recoverable		**202,658**	132,013	**—**	—
Deposits and prepayments		**39,824**	67,129	**343**	203
Others		**16,307**	8,247	**—**	—
		703,954	708,745	**343**	203

All of the trade and other receivables are expected to be recovered within one year. As at 31 December 2008, amounts due from related companies of $2,205,000 (2007: $1,507,000) are included in trade receivables (note 38(b)).

The Group's exposure to credit and currency risk related to trade and other receivables are disclosed in note 36.

(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	
	2008 $'000	2007 $'000
Within 30 days	**293,330**	382,055
31 days to 90 days	**136,415**	99,959
91 days to 180 days	**14,195**	16,027
Over 180 days	**1,225**	3,315
	445,165	501,356

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

28 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 assessed 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:

	2008	2007
	$'000	$'000
At 1 January	**13,286**	20,802
Impairment loss recognised	**11,375**	3,360
Reversal of impairment loss on trade and other receivables	**(12,677)**	(12,020)
Exchange difference	**741**	1,144
At 31 December	**12,725**	13,286

At 31 December 2008, the Group's trade debtors and bills receivable of $12,725,000 (2007: $13,286,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the recoverability is remote. Consequently, specific allowances for doubtful debts of $12,725,000 (2007: $13,286,000) were 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

29 Cash and cash equivalents

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents in the cash flow statement	**1,209,092**	1,965,966	**40,610**	7,997

The effective interest rate on call deposits in 2008 was 3.02% (2007: 3.04%).

30 Bank loans

The bank loans are repayable as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Within one year	**1,095,049**	267,571	**843,586**	183,830
After one but within two years	**637,611**	382,621	**584,458**	370,070
After two but within five years	**195,451**	443,809	**171,120**	370,472
Total loans	**1,928,111**	1,094,001	**1,599,164**	924,372
Less: Loans due within one year classified as current liabilities	**(1,095,049)**	(267,571)	**(843,586)**	(183,830)
Non-current loans	**833,062**	826,430	**755,578**	740,542

30 Bank loans *(continued)*

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Terms				
Unsecured bank loans				
denominated in RMB				
- Fixed interest rate at 5.30%	**68,058**	—	**—**	—
Guaranteed bank loans				
denominated in RMB				
- Fixed interest rate at 6.16% to 6.93%	**170,145**	75,152	**—**	—
Secured bank loans				
denominated in RMB				
- Variable interest rate				
at prevailing market rate (note (i))	**90,744**	85,888	**—**	—
- Fixed interest rate at 8.02% (note (ii))	**—**	8,589	**—**	—
Secured bank loans				
denominated in USD				
- Floating rate at LIBOR + 0.65%				
(note (ii))	**835,281**	924,372	**835,281**	924,372
Secured bank loans				
denominated in HKD				
- Floating rate at LIBOR + 0.65%				
(note (ii))	**421,050**	—	**421,050**	—
- Floating rate at HIBOR + 1.50%				
(note (ii))	**342,833**	—	**342,833**	—
	1,928,111	1,094,001	**1,599,164**	924,372

Notes:

(i) At 31 December 2008, the secured bank loans were secured by certain properties and land use rights with carrying amount of $45,717,000 (2007: $44,609,000) and $31,966,000 (2007: $30,895,000) respectively.

(ii) At 31 December 2008, the bank loan facilities of the Company and certain of its subsidiaries totalling $1,847,600,000 (2007: $1,112,016,000) were secured by pledged deposits of the Company and its subsidiaries amounting to $250,749,000 (2007: $29,128,000) and $347,776,000 (2007: $Nil) respectively. At 31 December 2007, the bank loan facilities were also secured by certain properties with carrying value of $78,530,000. The facilities were utilised to the extent of $1,818,025,000 (2007: $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. All dividends declared by the PRC subsidiaries of the Group have to be transferred to a designated bank account to secure the repayment of principal and interest due within six months. 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 2008, none of the covenants relating drawn down facilities had been breached.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

31 Finance lease liabilities

Finance lease liabilities are payable as follows:

	The Group					
	2008			2007		
	Total minimum lease payments $'000	**Interest expense relating to future periods $'000**	**Present value of the minimum lease payments $'000**	Total minimum lease payments $'000	Interest expense relating to future periods $'000	Present value of the minimum lease payments $'000
Within one year	**7,023**	**6,527**	**496**	6,934	6,475	459
After one but within two years	**7,023**	**6,505**	**518**	6,934	6,455	479
After two but within five years	**21,020**	**19,373**	**1,647**	20,802	19,236	1,566
More than five years	**268,839**	**93,037**	**175,802**	269,531	94,370	175,161
	296,882	**118,915**	**177,967**	297,267	120,061	177,206
Total finance lease obligations	**303,905**	**125,442**	**178,463**	304,201	126,536	177,665

32 Trade and other payables

		The Group		The Company	
	Note	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Trade and bills payables		**485,069**	330,845	**—**	—
Receipts in advance		**95,724**	118,130	**—**	—
VAT payable		**4,343**	2,112	**—**	—
Amounts due to related companies	38(c)	**3,942**	—	**—**	—
Other payables and accruals		**313,768**	304,871	**13,984**	7,625
		902,846	755,958	**13,984**	7,625

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.

Included in trade and bills payables at 31 December 2008 were amounts due to related companies of $21,783,000 (2007: $3,817,000) (note 38(c)).

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

32 Trade and other payables *(continued)*

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 36.

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

	The Group	
	2008	2007
	$'000	$'000
Within 30 days	**379,923**	231,829
31 days to 90 days	**62,698**	51,517
91 days to 180 days	**28,613**	33,964
Over 180 days	**13,835**	13,535
	485,069	330,845

As at 31 December 2007, bank deposits totalling $600,000 were pledged to banks to secure the letters of credit and bills facilities totalling $600,000 which were utilised to the extent of $600,000. As at 31 December 2008, the trade and bills payables were unsecured.

33 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 2008.

(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 subjected to a vesting scale in tranches of 25% each per annum starting from 2008 after announcement of results for the previous year.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

33 Share-based payments *(continued)*

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

	2008		2007	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at 1 January	**$7.46**	**39,550**	$7.46	40,050
Exercised during the year	**$7.46**	**(4,113)**	—	—
Lapsed during the year	**$7.46**	**(1,200)**	$7.46	(500)
Outstanding at 31 December	**$7.46**	**34,237**	$7.46	39,550
Exercisable at 31 December	**$7.46**	**5,474**	$7.46	—

The options outstanding at 31 December 2008 had an exercise price of $7.46 and a remaining life of 7.86 years.

34 Share capital

(a) Authorised and issued share capital

		2008		2007	
	Note	**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		**1,526,953**	**152,695**	1,451,953	145,195
Issued for cash (note)		**—**	**—**	75,000	7,500
Exercise of share options	33(b)	**4,113**	**412**	—	—
At 31 December		**1,531,066**	**153,107**	1,526,953	152,695

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.

During the year ended 31 December 2008, options were exercised to subscribe for 4,113,000 new ordinary shares in the Company at a consideration of $30,683,000 of which $412,000 was credited to share capital and the balance of $30,271,000 was credited to the share premium account. The fair value of the options exercised of $5,905,000 has been transferred from the retained earnings to the share premium.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

34 Share capital *(continued)*

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

Exercise period	Exercise price	2008 Number '000	2007 Number '000
After the result announcement for the year ended 31 December 2007 to 9 November 2016	$7.46	**5,474**	9,887
After the result announcement for the year ended 31 December 2008 to 9 November 2016	$7.46	**9,588**	9,888
After the result announcement for the year ending 31 December 2009 to 9 November 2016	$7.46	**9,587**	9,887
After the result announcement for the year ending 31 December 2010 to 9 November 2016	$7.46	**9,588**	9,888
	$7.46	**34,237**	39,550

Further details of these options are set out in note 33 to these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

35 Reserves

Details of the composition and movements of the reserves of the Group during the year are given in the Consolidation Statement of Changes in Equity on page 45.

(a) The Company

	Note	Share premium (note 35(b)) $'000	Contributed surplus (note 35(h)) $'000	Retained earnings $'000	Total $'000
At 1 January 2007		1,626,126	297,480	102,008	2,025,614
Issuance of new shares		780,000	—	—	780,000
Share issue expenses		(16,635)	—	—	(16,635)
Profit for the year		—	—	538,184	538,184
Share based payments	33	—	—	25,469	25,469
Dividends approved and paid during the year	16	—	—	(167,869)	(167,869)
At 31 December 2007		2,389,491	297,480	497,792	3,184,763
At 1 January 2008		**2,389,491**	**297,480**	**497,792**	**3,184,763**
Shares issued under the share option scheme	34(a)	**36,176**	**—**	**(5,905)**	**30,271**
Loss for the year		**—**	**—**	**(68,940)**	**(68,940)**
Share based payments	33	**—**	**—**	**14,194**	**14,194**
Dividends approved and paid during the year	16	**—**	**—**	**(290,836)**	**(290,836)**
At 31 December 2008		**2,425,667**	**297,480**	**146,305**	**2,869,452**

(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 the Predecessor Entities and the net book value of minority interests acquired over the consideration given. This reserve is distributable.

35 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 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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

35 Reserves *(continued)*

(i) Distributable reserves

In addition to retained earnings, 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 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was $2,869,452,000 (2007: $3,184,763,000).

36 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 28.

(b) Liquidity risk

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

31 December 2008

	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	1,928,111	1,975,383	614,187	500,352	656,878	203,966	—
Finance lease liabilities	178,463	303,905	3,511	3,512	7,023	21,020	268,839
Trade and other payables	902,846	902,846	902,846	—	—	—	—
	3,009,420	3,182,134	1,520,544	503,864	663,901	224,986	268,839

36 Financial instruments *(continued)*

(b) *Liquidity risk (continued)*

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

(c) *Interest rate risk*

The interest rates and terms of repayment of bank and other outstanding loans are disclosed in note 30.

Except for the variable-value borrowings, the financial assets and liabilities as at 31 December 2008 and 2007 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 retained earnings and profit by approximately $1,186,000 (2007: $6,344,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

36 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	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
United States dollars ("USD"):				
Current assets	**642**	19,094	**257**	—
Current liabilities	**(54,000)**	(24,000)	**(54,000)**	(24,000)
Non-current liabilities	**(54,000)**	(96,000)	**(54,000)**	(96,000)
	(107,358)	(100,906)	**(107,743)**	(120,000)

As USD is pegged to Hong Kong dollar (HKD), the Group considers that the risk of movements in exchange rates between HKD and USD to be insignificant.

(e) Fair value

The fair values of cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amounts due from/to related parties 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.

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

	2008		2007	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Long term bank loans	**833,062**	**833,062**	826,430	826,430
Finance lease liabilities	**178,463**	**185,766**	177,665	113,878

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

36 Financial instruments *(continued)*

(e) *Fair value (continued)*

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:

	2008	2007
Long term bank loans	**3.22% -5.76%**	4.46% - 7.56%
Finance lease liabilities	**3.72%**	6.18%

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.

37 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:

	2008 $'000	2007 $'000
Within 1 year	**381**	414
After 1 year but within 5 years	**1,473**	1,411
Over 5 years	**4,005**	4,135
	5,859	5,960

The Group leased a number of properties under operating leases with option to renew upon the expiry of the existing lease agreements.

(b) *Capital commitments*

Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	2008 $'000	2007 $'000
Contracted for	**241,809**	244,739
Authorised but not contracted for	**277,904**	1,238,874
	519,713	1,483,613

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

38 Related party transactions

During the years ended 31 December 2008 and 2007, 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. #
白銀雨潤肉類食品有限公司

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

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

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

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

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

Neijiang Yurun Meat Product Co., Ltd. #
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

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

Willie Holdings Limited # ("Willie")

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

38 Related party transactions *(continued)*

(a) *Significant related party transactions*

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

	2008 $'000	2007 $'000
Sales of meat and by-product		
Anhui Xuerun	**7,240**	6,664
Anhui Enbi	**—**	1,418
Total	**7,240**	8,082
Sales of raw materials		
Anhui Xuerun *	**2,697**	5,205
Anqing Furun	**50**	—
Total	**2,747**	5,205
Purchases of raw materials		
Anqing Furun	**9,837**	3,630
Liaocheng Furun	**16,901**	13,370
Total	**26,738**	17,000
Purchases of finished goods		
Anhui Xuerun **	**102,235**	73,524

* The cost of sales of raw materials to Anhui Xuerun and the deemed distribution fee to Anhui Xuerun amounted to $2,618,000 (2007: $5,053,000) and $79,000 (2007: $152,000) respectively.

** The related sales of finished goods purchased from Anhui Xuerun and the deemed distribution fee from Anhui Xuerun amounted to $105,397,000 (2007: $75,798,000) and $3,162,000 (2007: $2,274,000) respectively.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

38 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 31) and operating leases respectively.

The rental for the year ended 31 December 2008 amounted to $7,710,000 (2007: $7,033,000).

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 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 office premises of the ultimate holding company

The Group leases an office premises from Willie during the year ended 31 December 2008. The rental paid or payable to Willie and certain expenses borne by the Company amounted to $2,492,000 for the year ended 31 December 2008 (2007:Nil).

(iv) 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 $33,697,000 (2007: $34,538,000) as at 31 December 2008 to the Group. No rental is paid or payable by any of the group companies.

(v) Acquisition of a subsidiary

During the year ended 31 December 2008, the Group acquired a subsidiary from Jiangsu Yurun Food Group at a consideration of $172,000.

(vi) Disposal of other investment

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

(vi) Use of trademarks

During the years ended 31 December 2008 and 2007, 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

38 Related party transactions *(continued)*

(b) *Amounts due from related companies*

	2008 $'000	2007 $'000
Trade		
Anhui Xuerun	**2,205**	1,410
Anhui Enbi	**—**	97
Total	**2,205**	1,507

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 2008 and 2007.

(c) *Amounts due to related companies*

	2008 $'000	2007 $'000
Trade		
Anhui Xuerun	**13,415**	2,750
Anqing Furun	**3,721**	606
Liaocheng Furun	**4,647**	461
	21,783	3,817
Non-trade		
Willie	**2,492**	—
Itoham	**1,450**	—
	3,942	—
Total	**25,725**	3,817

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

38 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 the highest paid employee as disclosed in note 14, is as follows:

	2008 $'000	2007 $'000
Salaries and other emoluments	**6,857**	4,749
Contributions to retirement benefit schemes	**247**	200
Share-based payment	**11,036**	18,634
Total	**18,140**	23,583

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

39 Subsequent event

On 23 March 2009, the board of directors of the Company approved a capital expenditure plan for 2009 amounting to HK$1,600,000,000.

40 Immediate and ultimate holding company

The directors consider the immediate and ultimate holding company of the Company as at 31 December 2008 to be Willie incorporated in the BVI. This entity does not produce financial statements available for public use.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

41 Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 4 and 36 contain information about the assumptions relating to the determination of fair value of land use rights, property, plant and equipment and financial instruments. Other sources estimation uncertainties are as follows:

(i) *Completion risk of turnkey projects*

The Group prepaid in full the fixed price turnkey construction arrangement to the vendors. The Group regularly reviews the construction progress in order to determine the associated completion risk that the projects fail to complete as scheduled and assess the impairment of prepayments for turnkey projects. The completion risk assessment depends largely on management judgement of the financial and technical capability of the vendors, which might change significantly as a result of the deterioration of the financial strength of the vendors or technicalities of the projects.

(ii) *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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

41 Accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty (continued)

(iii) Depreciation

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

(iv) Impairment of trade receivables

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

(v) 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.

(vi) 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

42 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2008

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 year ended 31 December 2008 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.

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
IFRS 3 (revised)	Business combinations	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009

Principal subsidiaries

Appendix 1

The following list contains only the particulars of subsidiaries as at 31 December 2008 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 %	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 Meat Product Co., Ltd. (note (iii)) 巴東恒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
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	Slaughtering, production and sales of chilled and frozen meat

Principal subsidiaries

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
Fuyu Lianrun Food Co., Ltd. (note (iii)) 扶餘聯潤食品有限公司	PRC	Rmb10,000,000/ Rmb10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
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	—	100	Slaughtering, production and sales of chilled and frozen meat
Henan Yurun Beixu Meat Food Co., Ltd. (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

Principal subsidiaries

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 (i)) 連雲港福潤食品有限公司	PRC	US$53,000,000/ US$53,000,000	—	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
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

Principal subsidiaries

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 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	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
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	Slaughtering, production and 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
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

Principal subsidiaries

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
Fuyang Yurun Meat Processing Co., Ltd. (note (i)) 阜陽雨潤肉類加工有限公司	PRC	US$7,000,000/ US$7,000,000	—	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
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
Lianyungang 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
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	Production and sales of processed meat products

Principal subsidiaries

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
Xinjiang Yurun (note (iii)) 新疆雨潤食品有限公司	PRC	Rmb5,000,000/ Rmb5,000,000	—	100	Production and sales of processed meat products
Binhai Huili Food Co., Ltd. (note(iii)) 濱海滙利肉類加工有限公司	PRC	Rmb10,000,000/ Rmb10,000,000	—	100	Business operation not yet commenced
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
Jiamusi Shunda Food Co., Ltd. (note(iii)) 佳木斯順達食品有限公司	PRC	Rmb5,000,000/ Rmb5,000,000	—	100	Business operation not yet commenced
Jilin Hongrun Food Co., Ltd. (note(iii)) 吉林宏潤食品有限公司	PRC	Rmb5,000,000/ Rmb5,000,000	—	100	Business operation not yet commenced
Luannan Limin Food Co., Ltd (note (iii)) 灤南利民食品有限公司	PRC	Rmb5,000,000/ Rmb5,000,000	—	100	Business operation not yet commenced
Maàn Shan Yurun Food Development Co., Ltd. (note (i)) 馬鞍山雨潤食品開發有限公司	PRC	US$15,000,000/ US$15,000,000	—	100	Business operation not yet commenced
Shangqiu Tianhui (note (iii)) 商丘天暉肉類加工有限公司	PRC	Rmb10,000,000/ Rmb10,000,000	—	100	Business operation not yet commenced
Qiqihar Wanrun Food Co., Ltd. (note (iii)) 齊齊哈爾萬潤食品有限公司	PRC	Rmb10,000,000/ Rmb10,000,000	—	100	Business operation not yet commenced
Wuwei Tianxiang Meat Processing Co., Ltd. (note (iii)) 武威天祥肉類加工有限公司	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	—	70.1	Business operation not yet commenced

Principal subsidiaries

Appendix 1 *(continued)*

Notes:

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

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

(iii) 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)

	2004 $'000	2005 $'000	2006 $'000	2007 $'000	**2008 $'000**
Assets and liabilities					
Non-current assets	704,605	589,304	1,293,445	2,970,991	**5,065,141**
Net current assets	87,678	1,844,598	1,356,342	2,363,485	**1,238,028**
Total assets less current liabilities	792,283	2,433,902	2,649,787	5,334,476	**6,303,169**
Non-current liabilities	(177,001)	(278,461)	(188,613)	(1,003,636)	**(1,068,074)**
Net assets	615,282	2,155,441	2,461,174	4,330,840	**5,235,095**
Share capital	229,569	145,195	145,195	152,695	**153,107**
Reserves	385,713	2,010,246	2,303,523	3,986,480	**5,061,849**
Total equity attributable to equity holders of the Company	615,282	2,155,441	2,448,718	4,139,175	**5,214,956**
Minority interests	—	—	12,456	191,665	**20,139**
Total equity	615,282	2,155,441	2,461,174	4,330,840	**5,235,095**
Operating results					
Turnover	2,434,488	4,229,786	4,621,336	8,635,117	**13,023,901**
Result from operating activities	249,279	377,948	474,703	871,561	**1,175,242**
Net finance (costs)/income	(41,085)	(32,134)	11,886	41,218	**64,001**
Share of loss of an equity accounted investee	—	(481)	(1,224)	(761)	**(781)**
Profit before income tax	208,194	345,333	485,365	912,018	**1,238,462**
Income tax expense	(49,441)	(7,297)	(5,504)	(51,189)	**(101,449)**
Profit for the year	158,753	338,036	479,861	860,829	**1,137,013**
Attributable to:					
Equity holders of the Company	158,753	338,036	480,963	859,319	**1,137,781**
Minority interests	—	—	(1,102)	1,510	**(768)**
Profit for the year	158,753	338,036	479,861	860,829	**1,137,013**
Earnings per share					
Basic ($)	0.174	0.324	0.331	0.584	**0.744**
Diluted ($)	0.173	0.323	0.331	0.582	**0.736**

Five-year Summary

(Expressed in Hong Kong dollars)

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 2008 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. The consolidated balance sheet at 31 December 2004 is the combination of the balance sheets of the Company and its subsidiaries at 31 December 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 year ended 31 December 2004 is based on the profit attributable to equity holders of the parent for the year 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 three years ended 31 December 2006 has been re-translated into Hong Kong dollars.