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

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

yurun 雨润

ANNUAL REPORT 2009

穩佔整合先機 雨潤再創高峰
Consolidation – New Era New Height

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Yicai *(Chairman)*
Zhu Yiliang *(Chief Executive Officer)*
Feng Kuande
Ge Yuqi
Yu Zhangli

Non-executive Directors

Jiao Shuge *(alias* Jiao Zhen*)*
Wang Kaitian
Li Chenghua

Independent Non-executive Directors

Gao Hui
Qiao Jun
Chen Jianguo

AUDIT COMMITTEE

Gao Hui *(Chairman)*
Jiao Shuge *(alias* Jiao Zhen*)*
Chen Jianguo

REMUNERATION COMMITTEE

Qiao Jun *(Chairman)*
Gao Hui
Zhu Yicai

NOMINATION COMMITTEE

Chen Jianguo *(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
Huishang Bank Corporation 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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Chairman's Statement

Zhu Yicai
Chairman

Leveraging on the persistent hard work of our employees, strong brand recognition and well-planned sales and production strategies, Yurun Food overcame the challenges of 2009 to achieve further business growth.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present to you the annual results of Yurun Food for the year ended 31 December 2009 (the "Review Year").

Business Review

In 2009, the economy and business environment in China remained challenging due to the financial tsunami, and hog price also experienced significant fluctuations. However, the operating environment gradually improved as the Central Government launched a series of economic stimulus packages and support policies to hog breeding industry, giving support to continuing development of the meat product market in China, and in turn enabling Yurun to achieve remarkable results in the Review Year.

Furthermore, the Central Government implemented the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" (the "Guideline") in late 2009 to execute a series of favourable policies to promote sustainable development of the industry. The Guideline aims at improving hygiene and safety standards of the hog slaughtering industry by 2015, as well as optimizing the market structure to ensure steady and sustainable growth, and in turn, industry consolidation. In fact, Yurun Food has been preparing for industry consolidation for many years. The Group has strategically expanded its upstream and downstream production capacities in stages and improved its nation-wide production network, laying a strong foundation for further development in production capacity, management, brand and markets. During the Review Year, the Group continued to increase its production capacity and market penetration through mergers and acquisitions and equipment upgrade in order to capture business opportunities arising from accelerated industry consolidation and increasing demand for high quality pork products.

Hog price was in pendulum in 2009. Due to the global financial tsunami and outbreak of H1N1 influenza, hog price hit its lowest level during the first half of the year. In June 2009, the Central Government launched measures to stabilize hog price by increasing nationwide reserves of frozen pork in accordance with the "Contingency Plan on Preventing Excessive Drop in Hog Price" so as to ensure steady and sustainable development of the industry. Market regained confidence and hog price climbed in the second half of the year. Leveraged on thorough understanding on industry life cycle and price trend by our experienced management, Yurun implemented prudent procurement and inventory strategies and flexibly adjusted the mix of upstream and downstream business segments. In addition, on the back of its unique advantages in production capacity and brand recognition, Yurun Food was successful in minimizing the impact of price volatility and realizing strong growth in overall profitability.

During the Review Year, the Group recorded a turnover of HK$13.87 billion, and profit attributable to shareholders of HK$1.745 billion, representing an increase of 6.5% and 53.4% respectively as compared to last year. Profit margins also increased significantly, with an overall gross margin and net profit margin increase of 2.6 percentage points and 3.9 percentage points respectively as compared to that of 2008. These were the major driving forces to the strong growth of the Group's results.

Yurun Food continued to grow its market share. Its low temperature meat products ("LTMP") ranked first in terms of share in large retail market across the nation for almost ten consecutive years and its slaughtering volume ranked top in China. As regards to marketing, the Group continued to advertise on China Central Television (CCTV) and mobile media along with various effective promotional activities. As a result, the flagship brand, "Yurun", was further promoted, allowing the Group's two major businesses, LTMP and chilled pork business, to maintain strong pricing power, and further fuelling the overall profit growth.

Chairman's Statement

With the persistent hard work of its strong workforce of more than 10,000 employees, Yurun Food continued to record improving results in this year of challenge. As a leading enterprise in hog slaughtering and meat products industry in China, Yurun Food not only established a sound and sophisticated operation structure, an experienced management team, strong brand recognition, well-planned nationwide distribution and production capacity, as well as quality control system of international standards, but also had forward looking strategies and flexible business model, which enabled the Group to overcome different challenges encountered in previous years, to grow its business and further strengthen its brand.

Prospects

As the global economy is gradually recovering and the business environment is improving, the market is more optimistic of the economic environment in 2010 as compared to 2009. Furthermore, the hog slaughtering and meat products industry in China will be fueled by the favorable policies of the Central Government in stabilizing hog price and accelerating industry consolidation.

The Central Government implemented the Guideline in late 2009, which aims at eliminating sub-standard slaughtering plants within the next five years, providing strong momentum to industry consolidation. The government also plans to systematically increase the sales proportion of chilled meat, pre- packed chilled meat products and LTMP, which is favourable to rapid growth of two major businesses of the Group, chilled meat and LTMP. As a leading enterprise in the industry, Yurun Food will enjoy more advantages in production, brand, distribution and food quality and safety control as the Guideline is put in place. The Group also expects that Yurun Food, through industry consolidation, is able to enlarge its market share, strengthen its leading market position as well as achieve long term sustainable growth.

Under the guidance of its outstanding management team and benefited from those favorable government policies, the Group will continue to expand its upstream and downstream capacity, as well as to capture any lucrative opportunities arising from industry consolidation and to deliver better results in 2010.

Acknowledgement

On behalf of the Board, I would like to extend my gratitude to our shareholders, customers and business partners for their unfailing 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 years.

Looking forward, the Group will remain committed to its philosophy to provide products under our motto of "you trust because we care", by maintaining highest quality and safety. Moreover, Yurun Food will also aim at becoming the leading meat product manufacturer in China and bringing satisfactory returns to shareholders.

Zhu Yicai
Chairman
Hong Kong, 29 March 2010

Financial Highlights

	2009 (HK$ in million)	2008 (HK$ in million)	Growth
Turnover	**13,870**	13,024	6.5%
Gross profit	**2,161**	1,690	27.9%
Profit attributable to equity holders of the Company	**1,745**	1,138	53.4%
Diluted earnings per share (HK$)	**1.074**	0.736	45.9%

In 2009, economic and business environment both experienced enormous changes. Enterprises faced real challenge in contingency and operation management. Yurun Food, however, continued to sustain remarkable growth and increase profitability. The Ministry of Commerce of the People's Republic of China promulgated the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" in late December 2009. It is expected that the Guideline will provide great momentum to industry consolidation and growth in market share and business of the Group in future.

- In 2009, the Group's profit attributable to shareholders reached HK$1,745 million, representing an increase of 53.4% compared to that of last year.
- The Group's turnover increased by 6.5% to HK$13.87 billion.
- Diluted earnings per share was HK$1.074, representing an increase of 45.9% over that of 2008.

Yurun Food will remain committed to maintaining its promise of delivering products with the highest quality and hygienic standards. By upholding the philosophy of "You trust because we care", business operations will be propelled to new heights, creating promising value for shareholders.


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食品工业是道德工业
You Trust Because We Care

Management Discussion and Analysis

Industry Overview

In 2009, the business environment remained challenging against a backdrop of global economic volatility. However, supported by the RMB4 trillion stimulus package implemented by the Central Government in early 2009, domestic consumption in China underwent rapid expansion which accelerated economic recovery and eased the gloom of the financial tsunami. China even recorded a GDP growth rate of 8.7%. Benefited from the favourable macroeconomic environment and its proactive expansion in downstream production capacity as well as improvement in nation-wide hog slaughtering capacity, the Group not only overcame the challenges brought by hog price fluctuations during the Review Year, but also maintained a strong and remarkable profit growth over the last consecutive years.

During the Review Year, hog price experienced enormous fluctuations, hitting its low level in early 2009 and rebounding subsequently. In early 2009, as a result of the financial tsunami and global outbreak of H1N1 influenza, hog price dropped drastically. The Central Government subsequently launched nation-wide frozen pork reserves in accordance with the "Contingency Plan on Preventing Excessive Drop in Hog Price" in June 2009 and the market regained confidence. Hog price climbed from its low level in the second half of 2009. Benefited from the global economic recovery and increasing domestic demand for high-quality pork products, and leveraging on its brand recognition, high product hygiene and safety standards and strong pricing power, Yurun Food not only maintained stable selling price during the Review Year, but also achieved substantial growth in gross margin by further improving market distribution and economies of scale.

During the Review Year, the hog slaughtering industry in China achieved further steady development. Following the implementation of a series of regulations such as the "Administrative Provision for Live Pig Slaughtering" and the "Food Safety Law" during the year to regulate the industry development, the Central Government further promulgated the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" (the "Guideline") in late December 2009. The Guideline aims to eliminate 30% of outdated manual and semi-mechanical hog slaughtering capacity by 2013, and 50% by 2015. The Guideline also restricts the issue of hog slaughter licence to no more than 4 licences in cities with a population of over 5 million to eliminate outdated enterprises. In addition, through increasing industry consolidation, market share of small packaged pork products and chilled pork products are expected to increase from 10% to 15% and from 10% to 20% respectively by 2013, and to 20% and 30% respectively by 2015 in regions above county level.

Business Review

Despite the challenging market conditions in 2009, Yurun Food was able to maintain stable business growth by leveraging on its leading market position and strategic expansion of production capacity in China. Low temperature meat products ("LTMP") and chilled pork products with higher margins continued to be the key drivers to the Group's business growth and source of steady revenue amidst the volatile economic environment.

Furthermore, benefited from its strong brand recognition and pricing power, the average selling price of the Group's products remained competitive, contributing to remarkable results in overall gross profit margin despite fluctuation in domestic hog price.

Product Quality and R&D

It is always Yurun Food's aim to produce products of highest quality. We implemented stringent internal quality control over every production process, from procurement, production, sales to logistics. Leveraging on its stringent quality control, Yurun Food successfully became an icon of food safety and quality among customers.

In addition, the Group continued to expand its research and development team, focusing on the R&D of mid-to-high end products, developing competitive products and creating new trends in food consumption so as to maintain its advantage and strengthen its leading position in the industry. Given the increasing urban population of middle class in China, demand for high quality mid-to-high end meat products has correspondingly increased. During the Review Year, the Group's overall sales volume of upstream and downstream business increased significantly to 982,000 tons, up 228,000 tons as compared to that of last year.

Sales and Distribution

As the Group's high-end products with relatively higher gross margin and added value, LTMP and chilled pork continued to play an important role in contributing to the Group's overall turnover and profit during the Review Year. In 2009, sales of chilled pork reached HK$9.421 billion, representing an increase of 15.9% over that of last year, accounting for 62.7% of total turnover prior to inter-segment eliminations (2008: 58.3%) and 80.2% of total turnover of the upstream business segment (2008: 73.9%). Sales of LTMP was HK$3.081 billion, representing an increase of 16.5% over that of last year, accounting for 20.5% of total turnover prior to inter-segment eliminations (2008: 19.0%) and 93.7% of total turnover of the downstream business segment (2008: 89.8%).

Production Facilities and Production Capacity

To enlarge its market share and satisfy growing market demand for its products, the Group continued to increase its production capacity through selective acquisitions, improvements in existing production facilities and construction of new plants.

As at the end of 2009, the Group's annual downstream meat processing capacity was 278,000 tons. The Group will continue to expand its capacity in coming years in an orderly manner, targeting to increase market coverage, reduce bottlenecks and upgrade key production facilities.

With respect to its upstream slaughtering segment, the slaughtering capacity of the Group reached 25.55 million heads per year by the end of 2009, representing an increase of 7.50 million heads as compared to that at the end of 2008.

Financial Review

The Group recorded a turnover of HK$13.870 billion in 2009, representing an increase of 6.5% as compared to HK$13.024 billion last year. Despite a substantial drop of over 20% in hog price during the year, the Group continued to record a sales increase in 2009 by leveraging on its "Yurun" brand and nation-wide production network. Sales of upstream chilled pork and downstream LTMP increased significantly by 42.2% and 20.4% respectively as compared to that of last year. Furthermore, the Group maintained its existing pricing policy on upstream products by setting selling price with reference to prevailing market price. Average selling price of upstream products therefore increased along with the rebounding hog price during the second half of 2009, and as a result, turnover from this segment accordingly increased by 6.7% from HK$11.008 billion in 2008 to HK$11.746 billion in 2009. The average selling price of downstream products remained stable as a result of strong brand recognition and pricing power amidst fluctuating hog price, and sales from this segment increased 11.6% in 2009 as compared that of last year as a result of increasing consumer demand for high quality meat products.

In 2009, the Group recorded a net profit of HK$1.745 billion (2008: HK$1.138 billion), up 53.4% from that of last year. Diluted earnings per share was HK$1.074, representing a year on year growth of 45.9% over HK$0.736 of last year.

Management Discussion and Analysis

Turnover

Processed Meat Products

During the Review Year, sales of processed meat products reached HK$3.289 billion (2008: HK$2.946 billion), up 11.6% from that of 2008. Despite the difficult market environment, the Group achieved satisfactory growth due to its strong brand recognition and marketing efforts, improved product mix and launch of products with higher profit margins.

During the Review Year, turnover of LTMP was HK$3.081 billion, representing an increase of 16.5% as compared to HK$2.644 billion in 2008. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 93.7% (2008: 89.8%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$208 million (2008: HK$302 million), accounting for approximately 6.3% (2008: 10.2%) of the total turnover of the processed meat segment.

Chilled and Frozen Pork

During the Review Year, given its flexible strategic planning in distribution and production network, the Group achieved growth in slaughtering volume by 35.5% as compared to that of last year. The Group continued to expand its market share and maintained strong competitive advantages and leading position in the industry.

In 2009, the total sales generated from the upstream business (before inter-segment eliminations) increased by 6.7% to HK$11.746 billion year on year. Sales of chilled pork increased by 15.9% to HK$9.421 billion, accounting for approximately 80.2% of the total turnover of the upstream business (2008: 73.9%). In line with the strategy of the Group, sales of frozen pork decreased by 19.2% to HK$2.325 billion, accounting for 19.8% of the total turnover of the upstream business (2008: 26.1%).

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 27.9% from HK$1.690 billion in 2008 to HK$2.161 billion in 2009. Gross profit margin increased by 2.6 percentage points to 15.6% from 13.0% in 2008. Increase in gross profit margin during the Review Year was mainly because the Group was able to maintain stable profit on the back of its strong competitive advantages and pricing power and by increasing upstream slaughtering volume. Furthermore, the Group was able to maintain its existing pricing policy by setting selling price of upstream products with reference to prevailing market price which rebounded in the second half of 2009 while at the same time expand sales of downstream products with higher margins. The Group continued to expand its market share to further enhance economies of scale and maximize gross profit margins of both upstream and downstream businesses.

With respect to downstream products, gross profit margin of LTMP was 29.0%, representing an increase of 1 percentage point as compared to 28.0% of last year. Gross profit margin of HTMP was 21.4%, representing a significant increase of 4.6 percentage points as compared to that of last year. Overall gross profit margin of the downstream segment was 28.6%, an increase of 1.7 percentage points as compared to 26.9% of last year.

With respect to upstream business, gross profit margin of chilled and frozen pork was 11.5% and 6.3% respectively (2008: 9.6% and 4.3% respectively). The overall gross profit margin was 10.4%, representing a remarkable increase of 2.2 percentage points as compared to 8.2% of last year.

Other Operating Income

During the Review Year, other operating income of the Group was HK$625 million, representing a significant growth as compared to HK$344 million in 2008. Other operating income mainly included government subsidies and negative goodwill. Government subsidies increased significantly to HK$426 million from HK$99 million in 2008, which was mainly attributable to the continued incentives provided by the Chinese Government to support the development of agricultural industry. Negative goodwill arising from acquisition was HK$119 million, decreasing from HK$193 million in 2008.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$830 million, representing a decrease of 3.4% as compared to HK$859 million in 2008. Operating expenses represented 6.0% of the Group's turnover, decrease of 0.6 percentage point as compared to 6.6% of last year, demonstrating that the Group was able to control cost effectively amid rapid business expansion.

Operating Profit

In 2009, operating profit of the Group was HK$1.956 billion, up 66.4% from HK$1.175 billion of last year.

Finance Expenses

Net finance expenses of the Group was HK$64 million in 2009 while the Group recorded a net finance income of HK$64 million in 2008.

Income Tax

The total income tax for the year ended 31 December 2009 was HK$143 million, an increase of 40.5% as compared to HK$101 million of last year. Effective tax rate for the year was 7.5%, representing a slight decrease as compared to 8.2% in 2008.

Net Profit

Taking into account of all the above factors, net profit of the Group soared 53.4% from HK$1.138 billion in 2008 to HK$1.745 billion in 2009. Net profit margin for the Review Year was 12.6%, representing a significant increase of 3.9 percentage points from 8.7% of last year. In general, the Group realized remarkable growth in all aspects, proving strong competitive advantages of the Group in strategic planning and business operations.

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities during the Review Year, and the net proceeds of HK$1.675 billion from the placing of 130 million shares at a price of HK$13.23 per share in July 2009. The Group's net cash inflow from operating activities in 2009 amounted to HK$1.569 billion with a cash balance including pledged deposits of bank loan of HK$3.301 billion as at 31 December 2009, representing an increase of HK$1.493 billion as compared to HK$1.808 billion as at 31 December 2008.

Management Discussion and Analysis

As at 31 December 2009, the Group had an outstanding loan of HK$3.132 billion, representing an increase of HK$1.204 billion from HK$1.928 billion as at the end of 2008. Taking into account of funds used for strategic acquisitions and investments in production facilities during the Review Year, the Group was still able to maintain prudent financial management and retain sufficient working capital for daily operating activities and other funding requirements.

Assets and Liabilities

As at 31 December 2009, the total assets and total liabilities of the Group were HK$12.935 billion and HK$4.535 billion respectively, representing an increase of HK$4.614 billion and HK$1.449 billion as at 31 December 2008 respectively.

As at 31 December 2009, equity attributable to equity holders of the Company was HK$8.370 billion, representing an increase of HK$3.155 billion as compared to HK$5.215 billion as at 31 December 2008.

As at 31 December 2009, 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) of the Group was 28.3%, which was similar to the 28.8% as at 31 December 2008.

Charges on Assets

As at 31 December 2009, certain properties and lease prepayments of the Group with a carrying amount of HK$44.36 million and HK$31.33 million respectively (31 December 2008: HK$45.72 million and HK$31.97 million respectively) were pledged against certain bank loans with a total amount of HK$77.58 million (31 December 2008: HK$90.74 million).

As at 31 December 2009, the secured bank loans totalling HK$380 million were secured by pledged deposits denominated in RMB amounting to HK$378 million (2008: Nil).

As at 31 December 2009, intragroup bills payable totalling HK$863 million (2008: Nil) were secured by pledged deposits amounting to HK$380 million (2008: Nil). The corresponding intragroup bills receivable totalling HK$863 million (2008: Nil) were discounted with recourse for proceeds of HK$861 million.

Significant Investment, Material Acquisition and Disposals of Subsidiaries, Future Plans for Material Investments or Acquisition of Capital Assets

The preliminary capital expenditure plan for 2010 approved by the Board amounted to approximately HK$2.0 billion. As at the date of this report, the budget and plan are yet to be finalised and the Group has not at this stage identified any particular targets or opportunities. Save as disclosed herein, the Group did not hold any other substantial investment or have any substantial acquisition and sale of subsidiaries during the Review Year. As at the date of this report, the Group has no plan to make any substantial investment in or acquisition of capital assets.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are set out in note 5(d) to the financial statements.

Human Resources

As at 31 December 2009, the Group had 16,458 (2008: 17,385) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$413 million, accounting for 3.0% of the turnover of the Group (2008: HK$367 million, accounting for 2.8% of the turnover of the Group).

The Group offered competitive remunerations and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with industry and market practice, the Group also offered performance-based bonuses and a share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. 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 46, 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 17 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 was elected as a Deputy to the National People's Congress for two consecutive years of 2003 and 2008.

Mr. Zhu Yiliang, aged 44, 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 has 14 years experience in the industry. 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 54, 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 was 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 16 years experience in the industry.

Mr. Ge Yuqi, aged 54, 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 joined the Group in June 1997 and was responsible for the Development Department. He is overall responsible for the investment and development plans of the Group. Mr. Ge has 29 years experience in the industry.

Mr. Yu Zhangli, aged 42, has been an executive Director of the Company since January 2010. Mr. Yu is responsible for the upstream chilled and frozen meat business of the Group. He joined the Group in March 1996 and held various positions within the Group, namely manager of supply department from 1996 to April 2001, general manager of Anhui Furun Meet Processing Co., Ltd. from May 2001 to September 2003, and general manager of Kaifeng Furun Meat Product Co., Ltd. from October 2003 to April 2007. He graduated from the School of Business Administration of Henan University with specialisation in economic management.

Mr. Jiao Shuge (*alias* Jiao Zhen), aged 44, 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 a non-executive director of China Mengniu Dairy Company Limited and 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. Wang Kaitian, aged 52, has been a non-executive Director of the Company since January 2010. He is a vice chancellor and a professor of the School of Accounting of Nanjing University of Finance and Economics. He is principally engaged in teaching and research of accounting and financial management. Mr. Wang obtained a bachelor's degree in accounting from the Anhui University of Finance and Economics and a doctorate in accounting from Xiamen University.

He is currently an independent director of Nanjing Yunhai Special Metals Co., Ltd, a company listed on Shenzhen Stock Exchange, and Nanjing Textiles Imp/Exp Corp., Ltd, a company listed on Shanghai Stock Exchange. Mr. Wang was also an independent director of two companies listed on Shanghai Stock Exchange, namely Guodian Nanjing Automation Co., Ltd. and Nanjing Xinwang Tech Co., Ltd.

Mr. Li Chenghua, aged 45, has been a non-executive Director of the Company since January 2010. Mr. Li is a vice president and researcher of the Nanjing Academy of Social Sciences, and professor and supervisor to postgraduates specialised in corporate management. He obtained a doctorate in law from Nanjing University.

Mr. Gao Hui, aged 41, 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.

Mr. Qiao Jun, aged 47, has been an independent non-executive Director of the Company since January 2010. He is the dean and a professor of the School of Marketing and Logistics Management of the Nanjing University of Finance and Economics. Mr. Qiao obtained a bachelor's degree in economics and a master's degree in philosophy, both from Shanghai Jiao Tong University, and a doctorate in law from Nanjing Normal University.

Mr. Qiao has been an independent director of Nanjing Zhongbei (Group) Company Limited, a company listed on Shenzhen Stock Exchange, since May 2008.

Mr. Chen Jianguo, aged 48, has been an independent non-executive Director of the Company since January 2010. He is a lawyer in the People's Republic of China and has been a partner of 江蘇南京金大律師事務所 (Jiangsu Nanjing Jinda Law Office) since January 2003. Mr. Chen graduated from Fudan University with specialisation in economic law and obtained a master's degree in economic law from the Graduate School of The Chinese Academy of Social Sciences.

Senior Management

Miss Lee Wing Sze, **Rosa**, aged 35, is the Chief Financial Officer and Company Secretary of the Company. She joined the Group in April 2005 and has more than 14 years of 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 the 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. Li Shibao, aged 34, joined the Group in August 1999 and 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 the Nanjing University of Technology, a bachelor's degree in law from Nanjing University and a bachelor's degree in economics from the Nanjing University of Chemical Technology. Mr. Li has 10 years of experience in the industry.

Mr. Zhang Degang, aged 37, joined the Group in July 2000 and 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 10 years of experience in the industry.

Mr. Xu Baocai, aged 36, joined the Group in April 2003 and is the General Manager of the Group's Technology Centre. He is responsible for the research and development of new products, innovation and management of technology. Mr. Xu obtained a bachelor's degree and a master's degree in science of agriculture from the College of Agriculture of Anhui Agricultural University, and a doctor's degree in engineering from the School of Food Science and Technology of Jiangnan University (formerly Wuxi University of Light Industry). He has 7 years of experience in the industry.

Our market share continued to increase in 2009, with LTMP ranking first in major retail outlets for almost ten years and topped pig slaughtering capacity in China.

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 2009 annual report, together with the report of the Directors and the audited financial statements of the Group for the year ended 31 December 2009.

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 principal subsidiaries are set out in Appendix 1 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Group as at that date are set out in the audited financial statements on pages 43 to 128.

The Board recommended a final dividend of HK$0.150 (2008: HK$0.080) per share. This final dividend, together with the interim dividend of HK$0.150 (2008: HK$0.110) per share, will make a total dividend of HK$0.300 (2008: HK$0.190) per share for the full year ended 31 December 2009.

The final dividend will be paid on or about Monday, 14 June 2010 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 26 May 2010.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2009 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, except for the issue of 12,154,000 shares of the Company under the share option scheme and the placing of 130,000,000 new ordinary shares in the Company to investors, details of which are set out in the Company's announcement dated 24 July 2009.

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 48 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 129 to 130 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$4,521,010,000, of which approximately HK$250,983,000 has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$575,000 (2008: approximately HK$4,622,000).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the largest and the five largest customers of the Group accounted for approximately 1.4% and 5.9% 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 0.7% and 2.8% respectively of the Group's total purchases for the year.

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

Report of the Directors

DIRECTORS

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

Executive Directors

Zhu Yicai [R/N]	*Chairman*
Zhu Yiliang	*Chief Executive Officer*
Feng Kuande	
Ge Yuqi	
Yu Zhangli	(appointed on 8 January 2010)
Zhang Yuanfei	(resigned on 23 January 2009)

Non-executive Directors

Jiao Shuge [A] (*alias* Jiao Zhen)	
Wang Kaitian	(appointed on 8 January 2010)
Li Chenghua	(appointed on 8 January 2010)
Sun Yanjun	(resigned on 8 January 2010)

Independent non-executive Directors

Gao Hui [A/R/N]	
Qiao Jun [R]	(appointed on 8 January 2010)
Chen Jianguo [A/N]	(appointed on 8 January 2010)
Zheng Xueyi	(passed away on 15 October 2009)
Kang Woon	(resigned on 8 January 2010)

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, Zhu Yiliang, Ge Yuqi, Yu Zhangli and Jiao Shuge 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 of Gao Hui and Kang Woon, the independent non-executive Directors during the year, 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 them to be independent. The Company also considered Zheng Xueyi to be independent during his term of office.

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

During the year the terms of each of the executive Directors expired and they entered into new service contracts with the Company for a fixed term of three years commencing from 3 October 2009. 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 them is entitled to a remuneration of US$80,000 per annum. The Company received written confirmations dated 26 March 2010 from the executive Directors, 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 2009.

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

During the year the terms of each of the non-executive Directors and independent non-executive Directors expired and they entered into new letters of appointment with the Company for a fixed term of three years commencing from 3 October 2009.

Several new directors namely, Yu Zhangli, Wang Kaitian, Li Chenghua, Qiao Jun and Chen Jianguo were appointed on 8 January 2010.

Yu Zhangli entered into a service contract with the Company for a fixed term of three years commencing from 8 January 2010 which may be terminated by either party giving not less than three months' notice in writing. Pursuant to the service contract, Mr. Yu is entitled to a remuneration of US$80,000 per annum.

Each of Wang Kaitian, Li Chenghua, Qiao Jun and Chen Jianguo entered into letters of appointment with the Company for a fixed term of three years commencing from 8 January 2010. Pursuant to the letters of appointment, each of them is entitled to a remuneration of RMB100,000 per annum.

All Directors shall retire by rotation and be eligible for re-election at annual general meetings 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 28 to 33 and pages 118 to 123 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 2009, the number of issued shares of the Company was 1,673,219,650; and the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("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	Company	Interest of a controlled corporation	Personal	604,658,900[1]	—	604,658,900	36.14%
	Willie Holdings Limited	Beneficial owner	Corporate	100[1]	—	100	100.00%
Zhu Yiliang	Company	Beneficial owner	Personal	—	2,500,000	2,500,000	0.15%
Feng Kuande	Company	Beneficial owner	Personal	—	2,500,000	2,500,000	0.15%
Ge Yuqi	Company	Beneficial owner	Personal	—	2,500,000	2,500,000	0.15%
Yu Zhangli[3]	Company	Beneficial owner	Personal	—	150,000	150,000	0.01%
Zhang Yuanfei[4]	Company	Beneficial owner	Personal	—	2,650,000	2,650,000	0.16%

Notes:

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

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

(3) Yu Zhangli was appointed as a Director with effect from 8 January 2010.

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

(5) 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 2009, 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.

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 121,623,380 shares, representing approximately 7.27% 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.

(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:

	Number of share options					
Name or category of participant	**As at 1 January 2009 (1)**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 31 December 2009**	**Option period (2) & (3)**
Directors						
Zhu Yiliang	4,300,000	—	(1,800,000)	—	2,500,000	10.11.2006 – 09.11.2016
Feng Kuande	5,000,000	—	(2,500,000)	—	2,500,000	10.11.2006 – 09.11.2016
Ge Yuqi	4,650,000	—	(2,150,000)	—	2,500,000	10.11.2006 – 09.11.2016
Zhang Yuanfei	4,440,000	—	—	—	—(4)	10.11.2006 – 09.11.2016
Subtotal	18,390,000(5)	—	(6,450,000)	—	7,500,000(5)	
Employees (including ex-employees but excluding directors)(6)						
In aggregate	15,847,000	—	(3,914,000)	(113,000)	11,820,000	10.11.2006 – 09.11.2016
Others(4)						
In aggregate	—	—	(1,790,000)	—	2,650,000	10.11.2006 – 09.11.2016
Subtotal	15,847,000	—	(5,704,000)	(113,000)	14,470,000	
Total	34,237,000	—	(12,154,000)	(113,000)	21,970,000	

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 starting from the date of grant, i.e., 10 November 2006 until the date of announcement of the audited financial statements of the Company for the year ended 31 December 2007.

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

(4) The share options under "Others" represent share options granted to Zhang Yuanfei prior to his resignation as a Director on 23 January 2009. The Board has resolved to keep the share options of Mr. Zhang in view of his past contributions to the Group. Mr. Zhang's share options have been re-categorised as "Others" in the above table.

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

(6) Yu Zhangli was only appointed as a Director on 8 January 2010, His interest was included under the category "Employees (including ex-employees but excluding directors)" in the above table.

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

(8) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$13.460.

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

Information on the accounting policy for share options granted is provided in note 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 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 2009 are set out in the paragraph headed "Share Option Scheme" on pages 25 to 27 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 2009, 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	604,658,900(1)	36.14%
Ms. Wu	604,658,900(1)	36.14%
JPMorgan Chase & Co.	233,953,613(2)	13.98%

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) These shares were held by JPMorgan Chase & Co. and corporations controlled by it in the respective capacities as detailed below:

Capacity	Number of shares
Beneficial owner	1,371,000
Investment manager	170,341,000
Approved lending agent/Custodian (lending pool)	62,241,613

Save as disclosed above, as at 31 December 2009, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares and underlying shares of the Company.

CONNECTED TRANSACTIONS

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

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		592
2.	Supply of raw pork to Anhui Xuerun for its production use		239
3.	Distribution fee in connection with the sale of the Group's chilled and frozen pork by Shanghai Yurun Meat Products Co., Ltd. ("Shanghai Yurun")		4,584
4.	Purchase of raw chicken meat from the Predecessor Entities (as defined below) and entities controlled by Mr. Zhu which are engaged in poultry product operations		37,799
5.	Leases between the Group and the Predecessor Group (as defined below) including the following:		6,349
	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")	1,248	
	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")	1,112	
	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")	414	
	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")	681	

Continuing connected transactions (con't)

	Types of transactions		**Amount** *(HK$'000)*
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")	1,589	
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	1,078	
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")	227	
		Total:	49,563

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$592,000, which is equivalent to 0.004% of the Group's audited turnover for the year ended 31 December 2009.

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$239,000, which is equivalent to 0.002% of the Group's audited turnover for the year ended 31 December 2009.

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 ("2007 Shanghai Yurun Distribution Agreements"). Pursuant to the agreements, Shanghai Yurun will distribute chilled and frozen pork of 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 agreements are valid for three years, commencing on 1 January 2008 and ending on 31 December 2010.

To enhance the flexibility of the Group's operations, on 23 June 2009, Shanghai Yurun entered into a new distribution agreement with the Company ("2009 Shanghai Yurun Distribution Agreement") pursuant to which the arrangements under the 2007 Shanghai Yurun Distribution Agreements shall be terminated and replaced by the arrangements whereby any subsidiary of the Company may engage Shanghai Yurun to distribute chilled and frozen pork of the Group based on the pricing and annual caps identical to the arrangements under the 2007 Shanghai Yurun Distribution Agreements. Details of the 2009 Shanghai Yurun Distribution Agreement have been disclosed in the Company's announcement dated 23 June 2009.

The aggregate transaction value during the year amounted to approximately HK$4,584,000, which is equivalent to 0.03% of the Group's audited turnover for the year ended 31 December 2009.

4. *Purchase of raw chicken meat from the Predecessor Entities and entities controlled by Mr. Zhu which are engaged in poultry product operations*

On 12 December 2007, Nanjing Yurun entered into an agreement with each of Anqing Furun Poultry Product Co., Ltd. ("Anqing Furun") and Liaocheng Furun Poultry Product Co., Ltd. ("Liaocheng Furun") ("2007 Raw Poultry Meat Purchase Agreements"). 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.

To ensure the reliable quality and stable supply of raw poultry and to enhance the flexibility of the Group's operations, on 23 June 2009, the Predecessor Entities and entities controlled by Mr. Zhu (including but not limited to Anqing Furun, Danjiangkou Furun Poultry Product Co., Ltd. ("Danjiangkou Furun"), Daye Furun Poultry Product Co., Ltd. ("Daye Furun"), Liaocheng Furun, Linyi Furun Poultry Product Co., Ltd. ("Linyi Furun"), Shouxian Furun Poultry Product Co., Ltd. ("Shouxian Furun"), Shulan Furun Poultry Product Co., Ltd. ("Shulan Furun") and Xuzhou Furun Poultry Product Co., Ltd. ("Xuzhou Furun")) which are engaged in poultry product operations entered into a new agreement with the Company ("2009 Raw Poultry Meat Purchase Agreement") pursuant to which the arrangements under the 2007 Raw Poultry Meat Purchase Agreements shall be terminated and replaced by the arrangements whereby the Predecessor Entities and entities controlled by Mr. Zhu which are engaged in poultry product operations shall supply raw poultry meat to the Company (or such subsidiaries as may be directed and nominated by the Company from time to time) based on the pricing identical to the 2007 Raw Poultry Meat Purchase Agreements for its production use. In addition, following the expansion of the Group's business, the annual caps for each of the two financial years ending 31 December 2010 have been increased. Details of the 2009 Raw Poultry Meat Purchase Agreement have been disclosed in the Company's announcement dated 23 June 2009.

The aggregate transaction value during the year amounted to approximately HK$37,799,000, which is equivalent to 0.27% of the Group's audited turnover for the year ended 31 December 2009.

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 transaction value during the year amounted to approximately HK$6,349,000, which is equivalent to 0.05% of the Group's audited turnover for the year ended 31 December 2009.

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$1,248,000) per annum. The transaction value during the year amounted to approximately HK$1,248,000.

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$1,112,000) per annum. The transaction value during the year amounted to approximately HK$1,112,000.

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$414,000) per annum. The transaction value during the year amounted to approximately HK$414,000.

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$681,000) per annum. The transaction value during the year amounted to approximately HK$681,000.

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$1,589,000) per annum. The transaction value during the year amounted to approximately HK$1,589,000.

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$1,078,000) per annum. The transaction value during the year amounted to approximately HK$1,078,000.

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$227,000) per annum. The transaction value during the year amounted to approximately HK$227,000.

Notes:

(1) Shanghai Yurun, Yurun Stock, Jiangsu Furun, Kaiyuan Yurun, Beijing Yurun Food, Baiyin Yurun, Jiangsu Yurun Food Group, Donghai Wangrun, Guangzhou Jinrun, Anqing Furun, Liaocheng Furun, Danjiangkou Furun, Daye Furun, Linyi Furun, Shouxian Furun, Shulan Furun and Xuzhou Furun are beneficially owned by Mr. Zhu, the Chairman and controlling shareholder of the Company, and his associates. These companies are connected persons of the Company as defined in the Listing Rules.

(2) Anhui Xuerun was beneficially owned by Mr. Zhu and his associates. The equity interest in Anhui Xuerun was disposed of during the year.

(3) "Predecessor Group" is a group of companies which operated some or all of the business of the Group prior to the pre-listing reorganisation.

(4) "Predecessor Entity(ies)" is a company or companies controlled by Mr. Zhu, which operated some of the Group's business before the pre-listing reorganization relating to the business of the Group.

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 no less favourable than terms available to or from 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.

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

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

In compliance with the continuing disclosure requirements under Rule 13.21 of 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.

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. 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.

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. If such (or any other) event of default occurs, the facility may immediately be cancelled, all of the loan outstanding under the facility, together with accrued interest, may immediately be declared due and payable and, upon such declaration, be payable on demand.

As at 31 December 2009, the outstanding loan balances under the 2007 Facility Agreement and the 2008 Facility Agreement have been repaid in full.

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.

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 with 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 35 to 40 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, 29 March 2010

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 2009 to 31 December 2009 (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 Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules"). 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 five executive Directors, three 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, the audit committee, the remuneration committee and the nomination committee. Each board committee operates under clearly defined written terms of reference. Chairmen of the board committees will report to the Board after meetings.

The Chairman ensures that the Board works effectively and objectively in the interest of the Group 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 the agenda for each Board meeting to the Company Secretary and the Company Secretary ensures 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 the implementation of the strategies adopted by the Board for the operations of the Group.

The Chairman of the Board is Zhu Yicai, and the Chief Executive Officer is 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 the management of the Board and the 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 an independent element to the Board and to contribute to the development of the Group'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 Gao Hui and Kang Woon, the independent non-executive Directors during the year written confirmations of independence. The Board considers all the independent non-executive Directors during the year meet the independence 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 three years 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.

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	N/A	1/1	2/2
Zhu Yiliang *(Chief Executive Officer)*	4/4	N/A	N/A	N/A
Feng Kuande	4/4	N/A	N/A	N/A
Ge Yuqi	4/4	N/A	N/A	N/A
Yu Zhangli *(appointed on 8 January 2010)*	N/A	N/A	N/A	N/A
Zhang Yuanfei *(resigned on 23 January 2009)*	—*	N/A	N/A	N/A
Non-executive Directors				
Jiao Shuge *(alias* Jiao Zhen*)*	4/4	4/4	N/A	N/A
Wang Kaitian *(appointed on 8 January 2010)*	N/A	N/A	N/A	N/A
Li Chenghua *(appointed on 8 January 2010)*	N/A	N/A	N/A	N/A
Sun Yanjun *(resigned on 8 January 2010)*	4/4	N/A	N/A	N/A
Independent non-executive Directors				
Gao Hui	4/4	4/4	1/1	2/2
Qiao Jun *(appointed on 8 January 2010)*	N/A	N/A	N/A	N/A
Chen Jianguo *(appointed on 8 January 2010)*	N/A	N/A	N/A	N/A
Zheng Xueyi *(passed away on 15 October 2009)*	3/3*	N/A	N/A	N/A
Kang Woon *(resigned on 8 January 2010)*	4/4	4/4	1/1	2/2

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

BOARD COMMITTEES

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with defined terms of reference (which are available for inspection upon request) in line with the CG Code 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	Gao Hui* *(Chairman)* Jiao Shuge# Chen Jianguo* (appointed on 8 January 2010) Kang Woon* (resigned on 8 January 2010)	Qiao Jun* *(Chairman)* (appointed on 8 January 2010) Gao Hui* Zhu Yicai+ Kang Woon* *(Chairman)* (resigned on 8 January 2010)	Chen Jianguo* *(Chairman)* (appointed on 8 January 2010) Gao Hui* Zhu Yicai+ Kang Woon* *(Chairman)* (resigned on 8 January 2010)
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 make recommendations to the Board regarding the Group's policy and structure for the remuneration 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 Group'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*

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 with 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 the same 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 2009 are as follows:

Services provided		**Fees** *HK$'000*
2009 Annual audit		5,216
2009 Interim review		780
Non-audit service		233
	Total:	6,229

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 the 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 controls 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 required corrective action 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.

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.

During the Review year, the Board has reviewed the effectiveness of the internal controls of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget.

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 laws and regulations.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 41 to 42 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 as well as 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, Europe, 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 investors, corporate transparency can be enhanced and the Company's potential and actual value can be more fully reflected in the market.

KPMG

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 43 to 128, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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.

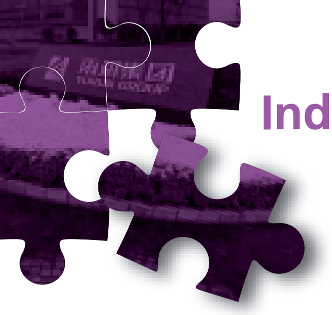
Auditor's responsibility

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.



Independent Auditor's Report

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 2009 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

29 March 2010

Consolidated Balance Sheet

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	**2009 $'000**	2008 $'000
Non-current assets			
Property, plant and equipment	18	**5,065,383**	2,608,267
Investment properties	19	**214,093**	220,831
Lease prepayments	20	**1,407,155**	1,083,832
Goodwill	22	**86,374**	86,268
Investment in an associate	23	**2,805**	2,915
Non-current prepayments	24	**936,738**	1,052,535
Deferred tax assets	25	**21,025**	10,908
		7,733,573	5,065,556
Current assets			
Inventories	26	**936,129**	703,455
Other investments	27	**6,870**	1,134
Current portion of lease prepayments	20	**30,722**	23,074
Trade and other receivables	28	**926,567**	703,954
Income tax recoverable	12	**378**	16,546
Pledged deposits	30	**758,759**	598,525
Time deposits		**76,817**	—
Cash and cash equivalents	29	**2,465,128**	1,209,092
		5,201,370	3,255,780
Current liabilities			
Bank loans	30	**3,108,093**	1,095,049
Finance lease liabilities	31	**474**	496
Trade and other payables	32	**1,084,750**	902,846
Income tax payable	12	**19,315**	19,776
		4,212,632	2,018,167
Net current assets		**988,738**	1,237,613
Total assets less current liabilities		**8,722,311**	6,303,169

Consolidated Balance Sheet

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current liabilities			
Bank loans	30	**24,361**	833,062
Finance lease liabilities	31	**164,414**	177,967
Deferred tax liabilities	25	**133,357**	57,045
		322,132	1,068,074
Net assets		**8,400,179**	5,235,095
Equity			
Share capital	34	**167,322**	153,107
Reserves	35	**8,202,380**	5,061,849
Total equity attributable to equity holders of the Company		**8,369,702**	5,214,956
Minority interests		**30,477**	20,139
Total equity		**8,400,179**	5,235,095

Approved and authorised for issue by the Board of Directors on 29 March 2010

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 51 to 128 are an integral part of these financial statements.

Balance Sheet

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current assets			
Investments in subsidiaries	21	**708,150**	704,463
Current assets			
Other receivables	28	**369**	343
Amounts due from subsidiaries		**3,811,504**	3,639,542
Pledged deposits	30	**—**	250,749
Cash and cash equivalents	29	**174,569**	40,610
		3,986,442	3,931,244
Current liabilities			
Bank loans	30	**—**	843,586
Other payables	32	**6,260**	13,984
		6,260	857,570
Net current assets		**3,980,182**	3,073,674
Total assets less current liabilities		**4,688,332**	3,778,137
Non-current liabilities			
Bank loans	30	**—**	755,578
Net assets		**4,688,332**	3,022,559
Equity			
Share capital	34	**167,322**	153,107
Reserves	35	**4,521,010**	2,869,452
Total equity		**4,688,332**	3,022,559

Approved and authorised for issue by the Board of Directors on 29 March 2010

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 51 to 128 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Turnover	8	**13,870,428**	13,023,901
Cost of sales		**(11,709,551)**	(11,333,916)
Gross profit		**2,160,877**	1,689,985
Other operating income	9	**624,641**	344,166
Distribution expenses		**(509,731)**	(546,580)
Administrative and other operating expenses		**(320,053)**	(312,329)
Results from operating activities		**1,955,734**	1,175,242
Finance income		**51,486**	136,931
Finance expenses		**(115,890)**	(72,930)
Net finance (expenses)/income	10(a)	**(64,404)**	64,001
Share of loss of an associate (net of income tax)	23	**(113)**	(781)
Profit before income tax	10	**1,891,217**	1,238,462
Income tax expense	11	**(142,573)**	(101,449)
Profit for the year		**1,748,644**	1,137,013
Attributable to:			
Equity holders of the Company		**1,745,288**	1,137,781
Minority interests		**3,356**	(768)
Profit for the year		**1,748,644**	1,137,013
Earnings per share			
Basic	17(a)	**$1.089**	$0.744
Diluted	17(b)	**$1.074**	$0.736

The notes on pages 51 to 128 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Profit for the year		**1,748,644**	1,137,013
Other comprehensive income for the year (after reclassification adjustments)	16		
Foreign currency translation differences for foreign operations		**6,750**	194,180
Available-for-sale financial assets:			
– changes in fair value recognised during the year		**55**	—
– reclassification adjustment for impairment loss on available-for-sale financial assets		**1,932**	—
		8,737	194,180
Total comprehensive income for the year		**1,757,381**	1,331,193
Attributable to:			
Equity holders of the Company		**1,753,958**	1,321,109
Minority interests		**3,423**	10,084
Total comprehensive income for the year		**1,757,381**	1,331,193

The notes on pages 51 to 128 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company										
	Note	Share capital (Note 34) $'000	Share premium (Note 35(b)) $'000	Capital surplus (Note 35(c)) $'000	Merger reserve (Note 35(d)) $'000	PRC statutory reserves (Note 35(e)) $'000	Fair value reserve (Note 35(f)) $'000	Exchange reserve (Note 35(g)) $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total equity $'000
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
Total comprehensive income for the year		—	—	—	—	—	—	183,328	1,137,781	1,321,109	10,084	1,331,193
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)
Share-based payments	33	—	—	—	—	—	—	—	14,194	14,194	—	14,194
Transfer to reserves		—	—	—	—	105,991	—	—	(105,991)	—	—	—
Dividends approved and paid during the year	35(j)	—	—	—	—	—	—	—	(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
At 1 January 2009		**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**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**1,987**	**6,683**	**1,745,288**	**1,753,958**	**3,423**	**1,757,381**
Issuance of new shares	34(a)	**13,000**	**1,706,900**	**—**	**—**	**—**	**—**	**—**	**—**	**1,719,900**	**—**	**1,719,900**
Share issue expenses		**—**	**(45,173)**	**—**	**—**	**—**	**—**	**—**	**—**	**(45,173)**	**—**	**(45,173)**
Capital contributions from minority interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,915**	**6,915**
Shares issued under share option scheme	34(a)	**1,215**	**107,392**	**—**	**—**	**—**	**—**	**—**	**(17,938)**	**90,669**	**—**	**90,669**
Share-based payments	33	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9,042**	**9,042**	**—**	**9,042**
Transfer to reserves		**—**	**—**	**—**	**—**	**128,203**	**—**	**—**	**(128,203)**	**—**	**—**	**—**
Dividends approved and paid during the year	35(j)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(373,650)**	**(373,650)**	**—**	**(373,650)**
At 31 December 2009		**167,322**	**4,194,786**	**3,887**	**(112,202)**	**426,040**	**55**	**491,427**	**3,198,387**	**8,369,702**	**30,477**	**8,400,179**

The notes on pages 51 to 128 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Cash flows from operating activities			
Profit for the year		**1,748,644**	1,137,013
Adjustments for:			
– Depreciation		**152,875**	109,397
– Amortisation of lease prepayments		**26,386**	19,785
– Impairment losses/(reversal of impairment losses) on trade and other receivables		**2,323**	(1,302)
– Interest income		**(45,265)**	(41,263)
– Finance expenses		**110,183**	72,930
– Share of loss of an associate		**113**	781
– (Gain)/loss on disposal of property, plant and equipment		**(14,950)**	6,699
– Recognition of negative goodwill		**(119,270)**	(192,870)
– Equity-settled share-based payment transactions		**9,042**	14,194
– Unrealised foreign exchange gain		**(383)**	(82,726)
– Income tax expense		**142,573**	101,449
– Net gain on sale of available-for-sale financial assets		**(1,524)**	—
– Impairment loss on available-for-sale financial assets		**1,932**	—
– Change in fair value of financial derivatives		**3,775**	—
Operating profit before change in working capital		**2,016,454**	1,144,087
Change in inventories		**(231,601)**	16,789
Change in trade and other receivables		**(224,529)**	43,498
Change in trade and other payables		**175,856**	111,618
Cash generated from operating activities		**1,736,180**	1,315,992
Finance expenses paid		**(106,537)**	(66,355)
Income tax paid		**(60,802)**	(54,907)
Net cash from operating activities		**1,568,841**	1,194,730

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**11,805**	248
Proceeds from sale of held-to-maturity investments		**297,389**	247,493
Proceeds from sale of available-for-sale financial assets		**8,332**	—
Interest received		**31,551**	22,478
Capital contributions from minority interests		**6,915**	—
Acquisition of property, plant and equipment		**(1,649,116)**	(1,307,352)
Payments for lease prepayments		**(896,545)**	(266,274)
Business acquisitions, net of cash acquired	7(a)	**(181,915)**	(309,108)
Acquisition of minority interests	7(b)	**—**	(180,979)
Acquisition of held-to-maturity investments		**(283,675)**	(228,708)
Acquisition of available-for-sale financial assets		**(12,482)**	—
Changes in time deposits		**(76,749)**	—
Net cash used in investing activities		**(2,744,490)**	(2,022,202)
Cash flows from financing activities			
Net proceeds from issuance of new shares		**1,765,396**	30,683
Proceeds from bank loans		**4,443,661**	1,121,740
Repayments of bank loans		**(3,239,752)**	(298,105)
Capital element of finance lease rentals paid		**(453)**	(491)
Interest element of finance lease rentals paid		**(6,082)**	(6,575)
Changes in pledged deposits		**(159,356)**	(566,346)
Dividends paid		**(373,650)**	(290,836)
Net cash from/(used in) financing activities		**2,429,764**	(9,930)
Net increase/(decrease) in cash and cash equivalents		**1,254,115**	(837,402)
Cash and cash equivalents at 1 January		**1,209,092**	1,965,966
Effect of exchange rate fluctuations on cash held		**1,921**	80,528
Cash and cash equivalents at 31 December	29	**2,465,128**	1,209,092

The notes on pages 51 to 128 are an integral part of these financial statements.

1 Reporting entity

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2009 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 consolidated financial statements were authorised for issue by the directors on 29 March 2010.

2 Basis of preparation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and 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 except that the following items are stated at fair value in the consolidated balance sheet:

— derivative financial instruments; and

— available-for-sale financial assets.

(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 significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4 and 41.

2 Basis of preparation *(continued)*

(e) Changes in accounting policies

The IASB has issued a new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 8, *"Operating segments"*

— IAS 1 (revised 2007), *"Presentation of financial statements"*

— Improvements to IFRSs (2008)

— Amendments to IAS 27, *"Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate"*

— Amendments to IFRS 7, *"Financial instruments: Disclosures - improving disclosures about financial instruments"*

— IAS 23 (revised 2007), *"Borrowing costs"*

— Amendments to IFRS 2, *"Share-based payment - vesting conditions and cancellations"*

The adoption of improvements to IFRSs (2008) and the amendments to IFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

— IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters and more consistent with internal reporting provided to the Group's most senior executive management. As the Group's internal reporting to the Group's chief operating decision maker is disaggregated into segments based on products, the adoption of IFRS 8 has had no material impact on the general presentation of segment information.

— As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

— As a result of the adoption of the amendments to IFRS 7, the consolidated financial statements include expanded disclosures in note 36(e) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

2 Basis of preparation *(continued)*

(e) Changes in accounting policies (continued)

— The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

— IAS 23 (revised 2007) requires that, effective from 1 January 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and has eliminated the option of immediate recognition of such borrowing costs as an expense. Previously, the Group immediately recognised all borrowing costs as an expense. In accordance with the transitional provisions in the standard, the Group will apply the new standard prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on and after the effective date. The change in accounting policy had no material impact on assets, profit or earnings per share for the year ended 31 December 2009.

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, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries and minority interests

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 presently 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

3 Significant accounting policies *(continued)*

(a) Basis of consolidation (continued)

(i) Subsidiaries and minority interests *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(ii) Associates

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. Investments in associates are accounted for using the equity method 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 associates, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the 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 associate.

(iii) Jointly controlled operations

A 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 associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) 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 in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and the rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

3 Significant accounting policies *(continued)*

(c) Financial instruments (continued)

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

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy (j)). Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy (j)).

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt 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 currency differences on available-for-sale equity instruments (see accounting policy (b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3 Significant accounting policies *(continued)*

(c) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) 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.

(iv) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are remeasured at fair value and is recognised immediately in profit or loss.

3 Significant accounting policies *(continued)*

(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 their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see accounting policy (o)). 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.

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 profit or loss.

(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 profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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 financial year-end and adjusted if appropriate.

3 Significant accounting policies *(continued)*

(d) Property, plant and equipment (continued)

(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 profit or loss.

Goodwill is measured at cost less accumulated impairment losses (see accounting policy (j)). In respect of associates, 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 profit or loss on a straight-line basis over the estimated useful lives of 20-30 years.

(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated 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 profit or loss on a straight-line basis over the respective periods of the rights.

3 Significant accounting policies *(continued)*

(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 (including receivables)

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 Significant accounting policies *(continued)*

(j) Impairment (continued)

(i) Financial assets (including receivables) *(continued)*

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(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. For goodwill, the recoverable amount is estimated each year at the same time.

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 asset. For the purpose of impairment testing, assets that cannot be tested individually 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 groups of assets (the "cash-generating unit" or "CGU"). Subject to an operating segment coiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts 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.

3 Significant accounting policies *(continued)*

(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 profit or loss 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 share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(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. The unwinding of the discount is recognised as finance expenses.

3 Significant accounting policies *(continued)*

(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. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Government grants

An unconditional government grant is recognised in profit or loss as other operating income when the grant becomes receivable.

Other government grants are recognised initially as deferred income at fair value 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 profit or loss as other operating income 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 profit or loss on a systematic basis over the useful life of the asset.

(iii) Rental income

Rental income receivable under operating leases is recognised in profit or loss on a straight-line basis over the term of lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the 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 profit or loss 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 profit or loss 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3 Significant accounting policies *(continued)*

(o) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and gains on the disposal of available-for-sale financial assets. Interest income is recognised in profit or loss as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings, bank charges, interest expense on lease obligation, impairment losses recognised on financial assets and changes in the fair value of financial derivatives. Borrowing costs are expensed in profit or loss that are not directly attributable to the acquisition, construction or production of a qualifying asset using the effective interest rate method. The interest expense component of finance lease payments is recognised in profit or loss using the effective interest rate method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

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.

3 Significant accounting policies *(continued)*

(q) *Income tax expense*

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of 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 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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 2(e)).

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities that are reported to the chief operating decision maker 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).

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 business combinations 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) Investments in equity and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted market prices at the balance sheet date without any deduction for transaction costs.

(iii) 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.

(iv) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on a market related rate for a similar instrument at the balance sheet date).

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(v) 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.

(vi) Investment properties

The valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation. This fair value is determined for disclosure purposes.

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.

(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 5.86% (2008: 7.55%) 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.

5 Financial risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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.

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.

5 Financial risk management *(continued)*

(f) Capital management

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of about 20%. The return on capital for the year ended 31 December 2009 was 20.9% (2008: 21.8%).

During the year, 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.

6 Segment reporting

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable 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.

(a) Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed in these consolidated financial statements has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

— Segment assets include all tangible and intangible assets, interests in an associate, non-current prepayments and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include finance lease liabilities and trade and other payables.

— Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

— The measure used for reporting segment profit is profit for the year.

6 Segment reporting *(continued)*

(a) *Segment results, assets and liabilities* *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**10,581,888**	10,077,726	**3,288,540**	2,946,175	**—**	—	**13,870,428**	13,023,901
Inter-segment revenue	**1,163,898**	930,077	**—**	—	**(1,163,898)**	(930,077)	**—**	—
Reportable segment revenue	**11,745,786**	11,007,803	**3,288,540**	2,946,175	**(1,163,898)**	(930,077)	**13,870,428**	13,023,901
Reportable segment profit	**1,422,570**	860,700	**576,341**	343,984	**(8,378)**	(1,236)	**1,990,533**	1,203,448
Depreciation and amortisation for the year	**116,308**	76,464	**62,662**	52,565	**—**	—	**178,970**	129,029
Unallocated depreciation and amortisation for the year							**291**	153
							179,261	129,182

6 Segment reporting *(continued)*

(a) *Segment results, assets and liabilities (continued)*

	Chilled and frozen meat		Processed meat products		Total	
	2009 **$'000**	2008 $'000	**2009** **$'000**	2008 $'000	**2009** **$'000**	2008 $'000
Segment assets	**8,079,909**	4,762,069	**1,527,264**	1,736,408	**9,607,173**	6,498,477
Investment in an associate	**—**	—	**2,805**	2,915	**2,805**	2,915
Reportable segment assets	**8,079,909**	4,762,069	**1,530,069**	1,739,323	**9,609,978**	6,501,392
Reportable segment liabilities	**(774,451)**	(533,236)	**(477,610)**	(551,972)	**(1,252,061)**	(1,085,208)
Capital expenditure incurred during the year	**2,638,590**	1,645,097	**87,278**	417,529	**2,725,868**	2,062,626
Unallocated capital expenditure incurred during the year					**1,708**	1,087
					2,727,576	2,063,713

6 Segment reporting *(continued)*

(b) Reconciliations of reportable segment profit, assets and liabilities

	2009 $'000	2008 $'000
Profit		
Reportable segment profit	**1,998,911**	1,204,684
Elimination of inter-segment profits	**(8,378)**	(1,236)
Reportable segment profit derived from Group's external customers	**1,990,533**	1,203,448
Share of profit less loss of an associate	**(113)**	(781)
Net finance (expenses)/income	**(64,404)**	64,001
Income tax expense	**(142,573)**	(101,449)
Unallocated head office and corporate expenses	**(34,799)**	(28,206)
Consolidated profit for the year	**1,748,644**	1,137,013
Assets		
Reportable segment assets	**9,609,978**	6,501,392
Deposits and cash and cash equivalents	**3,300,704**	1,807,617
Deferred tax assets	**21,025**	10,908
Unallocated head office and corporate assets	**3,236**	1,419
Consolidated total assets	**12,934,943**	8,321,336
Liabilities		
Reportable segment liabilities	**1,252,061**	1,085,208
Bank loans	**3,132,454**	1,928,111
Deferred tax liabilities	**133,357**	57,045
Unallocated head office and corporate liabilities	**16,892**	15,877
Consolidated total liabilities	**4,534,764**	3,086,241

7 Acquisitions of subsidiaries and minority interests

(a) *Business combinations*

(i) Tenger (Henan) Livestock Technology Company Limited*

On 8 January 2009, the Group entered into an asset transfer agreement to acquire the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Tenger (Henan) Livestock Technology Company Limited from Henan Province Fugou Local County Government（河南省扶溝縣人民政府）, at a cash consideration of $11,000. Details of Tenger (Henan) Livestock Technology Company Limited are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 31 December 2009 $'000	Principal activities
Tenger (Henan) Livestock Technology Company Limited 騰爾（河南）牧業科技有限公司	116,668	Slaughtering, production and sales of chilled and frozen meat

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

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	72,039	32,418	39,621
Lease prepayments	47,242	47,242	—
Net identified assets acquired	119,281	79,660	39,621
Less: Consideration	(11)		
Negative goodwill arising on acquisition (note 9)	119,270		

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2009. Tenger (Henan) Livestock Technology Company Limited 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)*

(ii) Tengzhou Dongqi Meat Processing Factory*

On 10 February 2009, the Group entered into a share transfer agreement to acquire the entire equity interest of Tengzhou Dongqi Meat Processing Factory at a cash consideration of $181,904,000. Details of Tengzhou Dongqi Meat Processing Factory are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 31 December 2009 $'000	Principal activities
Tengzhou Dongqi Meat Processing Factory 騰州東啟肉類加工有限公司	10,518	Slaughtering, production and sales of chilled and frozen meat

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

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	157,563	114,941	42,622
Other non-current assets	23,999	23,999	—
Other net current assets	342	—	342
Net identified assets acquired	181,904	138,940	42,964
Consideration	181,904		

Management estimates that the consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2009.

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

(a) *Business combinations (continued)*

(iii) 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.

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 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
Less: Consideration	(11)		
Negative goodwill arising on acquisition (note 9)	44,606		

The consolidated revenue and consolidated profit for the year would not be significantly different 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.

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

(a) Business combinations (continued)

(iv) 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.

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 18)	112,646	63,446	49,200
Lease prepayments	78,957	46,034	32,923
Net identified assets acquired	191,603	109,480	82,123
Negative goodwill arising on acquisition (note 9)	(148,264)		
Consideration	43,339		
Less: Prepayment made in 2007	(41,060)		
Cash paid for the acquisition in 2008	2,279		

The consolidated revenue for the year would not be significantly different 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)

(v) 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 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.

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 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
Less: Consideration	(306,818)		
Goodwill arising on acquisition (note 22)	(86,268)		

The management estimates that consolidated revenue for the year would not be significantly different 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.

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

(b) Acquisition of minority interests

On 22 December 2008, the Group acquired an additional 49% equity interest 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 value 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

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	**2009 $'000**	2008 $'000
Government subsidies		**425,593**	99,017
Recognition of negative goodwill arising on business combinations	7(a)	**119,270**	192,870
Rental income		**22,858**	17,899
Sales of scrap		**3,115**	3,236
Sundry income		**53,805**	31,144
		624,641	344,166

Certain subsidiaries of the Group were entitled to unconditional government subsidies. Government subsidies were recognised as other operating income when they became receivable.

10 Profit before income tax

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

		2009 $'000	2008 $'000
(a)	Net finance expenses/(income):		
	Interest on bank loans wholly repayable within five years	**101,743**	65,001
	Less: Interest expense capitalised into properties under development *	**(12,634)**	—
		89,109	65,001
	Bank charges	**14,992**	1,354
	Interest on lease obligation	**6,082**	6,575
	Net foreign exchange gain	**(4,697)**	(95,668)
	Interest income on held-to-maturity investments	**(13,714)**	(18,785)
	Interest income from bank deposits	**(31,551)**	(22,478)
	Net gain on sale of available-for-sale financial assets	**(1,524)**	—
	Impairment loss on available-for-sale financial assets	**1,932**	—
	Change in fair value of financial derivatives	**3,775**	—
		64,404	(64,001)

* The borrowing costs have been capitalised at a rate of 4.80% per annum (2008: Nil).

		2009 $'000	2008 $'000
(b)	Personnel expenses:		
	Salaries, wages and other benefits	**379,624**	334,635
	Contributions to defined contribution pension schemes	**24,829**	18,445
	Equity-settled share-based payment	**9,042**	14,194
		413,495	367,274

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% (2008: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2009.

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

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

10 Profit before income tax *(continued)*

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

		2009 $'000	2008 $'000
(c)	Other items:		
	Cost of inventories #	**11,709,551**	11,333,916
	Impairment losses on trade and other receivables	**4,376**	11,375
	Reversal of impairment losses on trade and other receivables	**(2,053)**	(12,677)
	Depreciation	**152,875**	109,397
	(Gain)/loss on disposal of property, plant and equipment	**(14,950)**	6,699
	Operating lease charges in respect of land use rights and premises		
	– minimum lease payments	**8,971**	5,687
	– contingent rent	**5,032**	4,628
	Amortisation of lease prepayments	**26,386**	19,785
	Research and development expenses (other than amortisation costs)	**10,911**	9,882
	Auditors' remuneration	**6,229**	5,271

\# Cost of inventories includes $302,886,000 (2008: $215,583,000) 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	**2009** **$'000**	2008 $'000
Current tax expense			
Current year		**68,888**	38,318
Under-provision in respect of prior years		**7,604**	3,746
		76,492	42,064
Deferred tax expense			
Origination and reversal of temporary differences	25(b)	**66,081**	59,385
Income tax expense in the consolidated income statement		**142,573**	101,449

(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 2009 and 2008.

(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 2009 (2008: 25%), 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. 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) All enterprises engaged in the primary processing of agricultural products are exempted from PRC enterprise income tax. As a result, the profits from slaughtering operations are exempted from PRC enterprise income tax for the years ended 31 December 2009 and 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. 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.

11 Income tax expense *(continued)*

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

(d) Under the PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement 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. 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.

(e) Under the 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%. The Group may be deemed to be a PRC resident enterprise and subject to PRC enterprise 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

	2009		2008	
	$'000	**%**	$'000	%
Profit before income tax	**1,891,217**		1,238,462	
Income tax using the PRC enterprise income tax rate of 25% (2008: 25%)	**472,804**	**25.0**	309,615	25.0
Effect of tax rate differential	**9,994**	**0.5**	6,929	0.5
Non-taxable income	**(138,826)**	**(7.4)**	(62,031)	(5.0)
Non-deductible expenses	**22,037**	**1.2**	28,001	2.2
Under-provision in respect of prior years	**7,604**	**0.4**	3,746	0.3
Recognition of deferred tax liabilities of retained earnings of subsidiaries and interest payment from PRC subsidiaries	**76,176**	**4.0**	57,045	4.6
Effect of tax losses not recognised	**19**	**0.0**	119	0.1
Effect of tax concessions	**(307,235)**	**(16.2)**	(241,975)	(19.5)
Income tax expense	**142,573**	**7.5**	101,449	8.2

12 Income tax recoverable/(payables)

Current taxation in the consolidated balance sheet represents:

	The Group	
	2009	2008
	$'000	$'000
At beginning of the year	**(3,230)**	(15,303)
Provision for PRC enterprise income tax for the year	**(68,888)**	(38,318)
Under-provision in respect of prior years	**(7,604)**	(3,746)
PRC enterprise income tax paid	**60,802**	54,907
Effect of movements in exchange rates	**(17)**	(770)
At end of the year	**(18,937)**	(3,230)
Represented by:		
Income tax recoverable	**378**	16,546
Income tax payable	**(19,315)**	(19,776)
	(18,937)	(3,230)

13 Directors' remuneration

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

	2009						
	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	—	2,453	37	—	2,490	—	2,490
Zhu Yiliang	—	558	37	—	595	1,150	1,745
Feng Kuande	—	295	28	—	323	1,150	1,473
Ge Yuqi	—	410	37	—	447	1,150	1,597
Zhang Yuanfei (resigned on 23 January 2009)	—	—	—	—	—	1,906	1,906
Non-executive directors							
Jiao Shuge (alias Jiao Zhen)	—	—	—	—	—	—	—
Sun Yanjun (resigned on 8 January 2010)	—	—	—	—	—	—	—
Independent non-executive directors							
Gao Hui	180	—	—	—	180	—	180
Zheng Xueyi (passed away on 15 October 2009)	142	—	—	—	142	—	142
Kang Woon (resigned on 8 January 2010)	180	—	—	—	180	—	180
Total	502	3,716	139	—	4,357	5,356	9,713

13 Directors' remuneration *(continued)*

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

	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

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.

14 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2008: four) are directors whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining one individual (2008: one) are as follows:

	2009 **$'000**	2008 $'000
Salaries and other emoluments	**2,723**	1,380
Contributions to retirement benefit schemes	**12**	12
Share-based payments	**1,150**	2,067
	3,885	3,459

The emoluments of the individual with the highest emoluments are within the band of $3,500,001 to $4,000,000 (2008: $3,000,001 to $3,500,000).

15 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of $264,985,000 (2008: loss of $68,940,000) which has been dealt with in the financial statements of the Company.

16 Other comprehensive income

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2009 and 2008.

17 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year of $1,745,288,000 (2008: $1,137,781,000) and the weighted average number of 1,603,166,000 (2008: 1,529,635,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2009	2008
	'000	'000
Issued ordinary shares at 1 January	**1,531,066**	1,526,953
Effect of new shares issued (note 34)	**72,100**	2,682
Weighted average number of ordinary shares	**1,603,166**	1,529,635

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year of $1,745,288,000 (2008: $1,137,781,000) and the weighted average number of 1,624,900,000 (2008: 1,545,133,000) shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2009	2008
	'000	'000
Weighted average number of ordinary shares	**1,603,166**	1,529,635
Effect of deemed issue of shares under the Company's share option scheme (note 33)	**21,734**	15,498
Weighted average number of ordinary shares (diluted)	**1,624,900**	1,545,133

18 Property, plant and equipment

The Group

	Properties $'000	Machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Cost:						
At 1 January 2008	970,126	611,588	45,680	41,393	518,111	2,186,898
Acquisitions through business combinations (note 7(a))	255,733	28,781	1,828	634	—	286,976
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	1,582,374	900,019	65,414	59,163	515,681	3,122,651
At 1 January 2009	**1,582,374**	**900,019**	**65,414**	**59,163**	**515,681**	**3,122,651**
Acquisitions through business combinations (note 7(a))	**179,156**	**50,342**	**23**	**81**	**—**	**229,602**
Other acquisitions	**1,538,671**	**598,233**	**7,127**	**9,167**	**224,997**	**2,378,195**
Transfers	**326,569**	**72,999**	**—**	**283**	**(399,851)**	**—**
Disposals	**(1,388)**	**(31,880)**	**(2,365)**	**(1,228)**	**—**	**(36,861)**
Effect of movements in exchange rates	**3,752**	**1,720**	**83**	**79**	**482**	**6,116**
At 31 December 2009	**3,629,134**	**1,591,433**	**70,282**	**67,545**	**341,309**	**5,699,703**

18 Property, plant and equipment *(continued)*

The Group (continued)

	Properties $'000	Machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Accumulated depreciation:						
At 1 January 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
At 1 January 2009	**233,301**	**234,764**	**22,679**	**23,640**	**—**	**514,384**
Depreciation charge for the year	**60,389**	**70,505**	**5,995**	**8,982**	**—**	**145,871**
Disposals	**(189)**	**(23,595)**	**(1,837)**	**(1,054)**	**—**	**(26,675)**
Effect of movements in exchange rates	**341**	**331**	**32**	**36**	**—**	**740**
At 31 December 2009	**293,842**	**282,005**	**26,869**	**31,604**	**—**	**634,320**
Carrying amounts:						
At 31 December 2009	**3,335,292**	**1,309,428**	**43,413**	**35,941**	**341,309**	**5,065,383**
At 31 December 2008	1,349,073	665,255	42,735	35,523	515,681	2,608,267

All properties are located in the PRC.

In 2009, other acquisitions of property, plant and equipment mainly comprise addition of properties and machinery and equipment upon completion of turnkey projects and acquisitions of production plants during the year.

Ownership certificates of certain properties with an aggregate carrying value of $1,805,639,000 (2008: $291,419,000) at 31 December 2009 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 $28,079,000 (2008: $33,630,000) at 31 December 2009, are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

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 2009, the carrying amount of leased property, plant and equipment was $132,725,000 (2008: $141,603,000).

Security

At 31 December 2009, certain properties with a carrying amount of $44,358,000 (2008: $45,717,000) were pledged against bank loans (see note 30).

19 Investment properties

	The Group	
	2009	2008
	$'000	$'000
Cost:		
At 1 January	**230,510**	222,053
Disposals	**—**	(4,070)
Effect of movements in exchange rates	**284**	12,527
At 31 December	**230,794**	230,510
Accumulated depreciation:		
At 1 January	**9,679**	2,468
Charge for the year	**7,004**	7,075
Disposals	**—**	(54)
Effect of movements in exchange rates	**18**	190
At 31 December	**16,701**	9,679
Carrying amounts:		
At 31 December	**214,093**	220,831

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 determined based on the 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. None of the leases includes contingent rental.

The aggregate fair value of the investment properties at 31 December 2009 was approximately $286,957,000 (2008: $220,831,000). The valuation was estimated by the directors based on the present value of future cash flows expected to be received from renting out the properties.

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 plant and buildings. The remaining period of the land use rights of the Group ranges from 41 to 50 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 $799,000 as at 31 December 2009 (2008: $817,000) are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

At 31 December 2009, land use rights with a carrying amount of $31,329,000 (2008: $31,966,000) were pledged against bank loans (see note 30).

21 Investments in subsidiaries

	The Company	
	2009	2008
	$'000	$'000
Unlisted shares, at cost	**708,150**	704,463

Particulars of principal subsidiaries are set out in Appendix 1 on pages 126 to 128.

22 Goodwill

	Note	The Group 2009 $'000	2008 $'000
At 1 January		**86,268**	—
Acquisitions through business combinations	7	**—**	86,268
Effect of movements in exchange rates		**106**	—
At 31 December		**86,374**	86,268

Impairment testing for cash generating unit 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, which is not higher than the Group's operating segments as reported in note 6.

Goodwill 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 used 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 2009 %	2008 %
- Gross margin	**9**	8
- Growth rate	**15**	15
- Discount rate	**17**	15

Management determined the budgeted gross margin based on past performance and its expectation for market development. 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.

23 Investment in an associate

	The Group	
	2009	2008
	$'000	$'000
Share of net assets	**2,805**	2,915

Details of the associate at 31 December 2009 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 associate:

	Assets	Liabilities	Equity	Revenue	Loss
	$'000	$'000	$'000	$'000	$'000
2009					
100%	**16,215**	**4,993**	**11,222**	**17,158**	**(451)**
Group's effective interest	**4,053**	**1,248**	**2,805**	**4,289**	**(113)**
2008					
100%	14,535	2,876	11,659	13,901	(3,125)
Group's effective interest	3,634	719	2,915	3,475	(781)

The associate established in the PRC is a sino foreign joint-venture enterprise.

24 Non-current prepayments

	The Group	
	2009	2008
	$'000	$'000
Prepayments for acquisitions of land use rights	**857,767**	247,791
Prepayments for acquisitions of property, plant and equipment	**78,971**	39,532
Prepayments for turnkey projects	**—**	765,212
	936,738	1,052,535

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. The construction projects were substantially completed and delivered to the Group by the end of 2009.

25 Deferred tax assets and liabilities

(a) *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities at 31 December 2009 are attributable to the following:

	The Group					
	Assets		Liabilities		Net	
	2009	2008	**2009**	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Property, plant and equipment	**18,924**	9,182	**—**	—	**18,924**	9,182
Impairment loss on trade and other receivables	**2,101**	1,726	**—**	—	**2,101**	1,726
Withholding tax for interest payment from PRC subsidiaries	**—**	—	**(849)**	(1,106)	**(849)**	(1,106)
Withholding tax for dividends from PRC subsidiaries	**—**	—	**(132,508)**	(55,939)	**(132,508)**	(55,939)
Total deferred tax assets/ (liabilities)	**21,025**	10,908	**(133,357)**	(57,045)	**(112,332)**	(46,137)
Set off of tax under the same tax jurisdiction	**—**	—	**—**	—	**—**	—
Net deferred tax assets/ (liabilities)	**21,025**	10,908	**(133,357)**	(57,045)	**(112,332)**	(46,137)

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 2008 $'000	Recognised in income $'000	Exchange difference $'000	At 31 December 2008 $'000	**Recognised in income $'000**	**Exchange difference $'000**	**At 31 December 2009 $'000**
Property, plant and equipment	11,147	(2,577)	612	9,182	**9,722**	**20**	**18,924**
Impairment loss on trade and other receivables	1,407	237	82	1,726	**373**	**2**	**2,101**
Withholding tax for interest payment from PRC subsidiaries	—	(1,106)	—	(1,106)	**257**	**—**	**(849)**
Withholding tax for dividends from PRC subsidiaries	—	(55,939)	—	(55,939)	**(76,433)**	**(136)**	**(132,508)**
Total	12,554	(59,385)	694	(46,137)	**(66,081)**	**(114)**	**(112,332)**

(c) *Deferred tax assets not recognised*

The Group has not recognised deferred tax assets in respect of tax losses of $870,000 (2008: $752,000) as it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. The tax losses do not expire under the current tax legislation.

26 Inventories

	The Group	
	2009 $'000	2008 $'000
Raw materials	**161,514**	186,794
Work in progress	**62,854**	87,066
Finished goods	**711,761**	429,595
	936,129	703,455

27 Other investments

	The Group	
	2009	2008
	$'000	$'000
Available-for-sale financial assets, unlisted	**6,870**	1,134

28 Trade and other receivables

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade receivables (note 28(a))	**575,682**	445,165	**—**	—
Value-added tax recoverable	**275,188**	202,658	**—**	—
Deposits and prepayments	**32,462**	39,824	**369**	343
Others	**43,235**	16,307	**—**	—
	926,567	703,954	**369**	343

All of the trade and other receivables are expected to be recovered within one year. As at 31 December 2009, amounts due from related companies of $4,000 (2008: $2,205,000) 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.

28 Trade and other receivables *(continued)*

(a) Trade receivables

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

	The Group	
	2009	2008
	$'000	$'000
Within 30 days	**296,053**	293,330
31 days to 90 days	**130,388**	136,415
91 days to 180 days	**148,144**	14,195
Over 180 days	**1,097**	1,225
	575,682	445,165

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

(b) Impairment of trade debtors

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

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

	The Group	
	2009	2008
	$'000	$'000
At 1 January	**12,725**	13,286
Impairment loss recognised	**4,376**	11,375
Reversal of impairment loss on trade debtors	**(2,053)**	(12,677)
Exchange difference	**17**	741
At 31 December	**15,065**	12,725

At 31 December 2009, the Group's trade debtors of $15,065,000 (2008: $12,725,000) 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 $15,065,000 (2008: $12,725,000) were recognised. The Group does not hold any collateral over these balances.

28 Trade and other receivables *(continued)*

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2009	2008
	$'000	$'000
Neither past due nor impaired	**504,083**	370,591
Less than 1 month past due	**56,722**	59,692
1 to 3 months past due	**9,454**	9,463
Over 3 months past due	**5,423**	5,419
	71,599	74,574
	575,682	445,165

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.

29 Cash and cash equivalents

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents in the cash flow statement	**2,465,128**	1,209,092	**174,569**	40,610

The effective interest rate on call deposits in 2009 was 2.25% (2008: 3.02%).

30 Bank loans

The bank loans are repayable as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Bank loans				
- Within one year	**2,247,397**	1,095,049	—	843,586
- After one but within two years	**—**	637,611	—	584,458
- After two but within five years	**24,361**	195,451	—	171,120
Proceeds from discounted bills				
- Within one year	**860,696**	—	—	—
Total loans	**3,132,454**	1,928,111	—	1,599,164
Less: Loans due within one year classified as current liabilities	**(3,108,093)**	(1,095,049)	—	(843,586)
Non-current loans	**24,361**	833,062	—	755,578

30 Bank loans *(continued)*

	The Group		The Company	
	2009 **$'000**	2008 $'000	**2009** **$'000**	2008 $'000
Terms				
Unsecured bank loans denominated in RMB				
- Variable interest rate at prevailing market rate	**232,819**	—	**—**	—
- Fixed interest rate at 4.78% to 5.84% (2008: 5.30% to 6.93%)	**1,581,765**	238,203	**—**	—
Secured bank loans denominated in RMB				
- Variable interest rate at prevailing market rate (note (i))	**77,580**	90,744	**—**	—
Secured bank loans denominated in USD				
- Floating rate at LIBOR + 0.65% (note (ii))	**—**	835,281	**—**	835,281
- Fixed interest rate at 0.98% to 1.23% (note (iii))	**379,594**	—	**—**	—
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
Proceeds from discounted bills denominated in RMB (note (iv))	**860,696**	—	**—**	—
	3,132,454	1,928,111	**—**	1,599,164

30 Bank loans *(continued)*

Notes:

(i) At 31 December 2009, the secured bank loans were secured by certain properties and land use rights with carrying amount of $44,358,000 (2008: $45,717,000) and $31,329,000 (2008: $31,966,000) respectively.

(ii) At 31 December 2008, the bank loan facilities of the Company and certain of its subsidiaries totalling $1,847,600,000 were secured by pledged deposits of the Company and its subsidiaries amounting to $250,749,000 and $347,776,000 respectively. The facilities were utilised to the extent of $1,818,025,000. Certain of the Group's bank loan facilities were subject to the fulfilment of covenants relating to the Group's financial ratios and capital requirements, 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. The bank loan facilities utilised in prior years were fully repaid and expired in 2009.

(iii) At 31 December 2009, the secured bank loans were secured by pledged deposits denominated in RMB amounting to $378,299,000 (2008:$Nil).

(iv) At 31 December 2009, intragroup bills payable totalling $863,132,000 (2008: $Nil) were secured by pledged deposits amounting to $380,460,000 (2008: $Nil). The corresponding intragroup bills receivable totalling $863,132,000 (2008: $Nil) were discounted with recourse. The proceeds from discounting are stated in the consolidated balance sheet as secured bank loans.

31 Finance lease liabilities

Finance lease liabilities are payable as follows:

The Group

	2009			2008		
	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	**6,540**	**6,066**	**474**	7,023	6,527	496
After one but within two years	**6,540**	**6,046**	**494**	7,023	6,505	518
After two but within five years	**24,785**	**17,996**	**6,789**	21,020	19,373	1,647
More than five years	**244,309**	**87,178**	**157,131**	268,839	93,037	175,802
	275,634	**111,220**	**164,414**	296,882	118,915	177,967
Total finance lease obligations	**282,174**	**117,286**	**164,888**	303,905	125,442	178,463

32 Trade and other payables

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade payables	**439,748**	485,069	**—**	—
Receipts in advance	**110,616**	95,724	**—**	—
Deposits from customers	**45,223**	32,775	**—**	—
Salary and welfare payables	**78,402**	74,860	**—**	—
Value-added tax payable	**1,013**	4,343	**—**	—
Amounts due to related companies (note 38(c))	**4,998**	3,942	**—**	—
Derivative financial instruments	**3,779**	—	**—**	—
Other payables and accruals	**400,971**	206,133	**6,260**	13,984
	1,084,750	902,846	**6,260**	13,984

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 payables at 31 December 2009 were amounts due to related companies of $5,925,000 (2008: $21,783,000) (note 38(c)).

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

Trade payables

An ageing analysis as of the balance sheet date is analysed as follows:

	The Group	
	2009	2008
	$'000	$'000
Within 30 days	**343,132**	379,923
31 days to 90 days	**61,434**	62,698
91 days to 180 days	**13,402**	28,613
Over 180 days	**21,780**	13,835
	439,748	485,069

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 years ended 31 December 2009 and 2008.

(a) Term and conditions of the grants

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.

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

	2009		2008	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at 1 January	**$7.46**	**34,237**	$7.46	39,550
Exercised during the year	**$7.46**	**(12,154)**	$7.46	(4,113)
Lapsed during the year	**$7.46**	**(113)**	$7.46	(1,200)
Outstanding at 31 December	**$7.46**	**21,970**	$7.46	34,237
Exercisable at 31 December	**$7.46**	**2,870**	$7.46	5,474

The options outstanding at 31 December 2009 had an exercise price of $7.46 and a remaining life of 6.86 years.

34 Share capital

(a) Authorised and issued share capital

	2009		2008	
	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	**1,531,066**	**153,107**	1,526,953	152,695
Issued for cash (note)	**130,000**	**13,000**	—	—
Exercise of share options (note 33(b))	**12,154**	**1,215**	4,113	412
At 31 December	**1,673,220**	**167,322**	1,531,066	153,107

Note: On 28 July 2009, 130,000,000 new ordinary shares of the Company at a par value of $0.1 were issued at a price of $13.23 per share.

During the year ended 31 December 2009, options were exercised to subscribe for 12,154,000 (2008: 4,113,000) new ordinary shares in the Company at a consideration of $90,669,000 (2008: $30,683,000) of which $1,215,000 (2008: $412,000) was credited to share capital and the balance of $89,454,000 (2008: $30,271,000) was credited to the share premium account. The fair value of the options exercised of $17,938,000 (2008: $5,905,000) has been transferred from retained earnings to the share premium.

34 Share capital *(continued)*

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

Exercise period	**Exercise price**	**2009 Number '000**	2008 Number '000
After the result announcement for the year ended 31 December 2007 to 9 November 2016	$7.46	**900**	5,474
After the result announcement for the year ended 31 December 2008 to 9 November 2016	$7.46	**1,970**	9,588
After the result announcement for the year ending 31 December 2009 to 9 November 2016	$7.46	**9,550**	9,587
After the result announcement for the year ending 31 December 2010 to 9 November 2016	$7.46	**9,550**	9,588
	$7.46	**21,970**	34,237

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

35 Reserves and dividends

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) The Company

	Note	Share premium (note 35(b)) $'000	Contributed surplus (note 35(h)) $'000	Retained earnings $'000	Total $'000
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	35(j)	—	—	(290,836)	(290,836)
At 31 December 2008		2,425,667	297,480	146,305	2,869,452
At 1 January 2009		**2,425,667**	**297,480**	**146,305**	**2,869,452**
Shares issued for cash		**1,706,900**	**—**	**—**	**1,706,900**
Share issue expense		**(45,173)**	**—**	**—**	**(45,173)**
Shares issued under the share option scheme	34(a)	**107,392**	**—**	**(17,938)**	**89,454**
Profit for the year		**—**	**—**	**264,985**	**264,985**
Share-based payments	33	**—**	**—**	**9,042**	**9,042**
Dividends approved and paid during the year	35(j)	**—**	**—**	**(373,650)**	**(373,650)**
At 31 December 2009		**4,194,786**	**297,480**	**28,744**	**4,521,010**

35 Reserves and dividends *(continued)*

(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.

(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.

35 Reserves and dividends *(continued)*

(h) Contributed surplus

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

(i) Distributable reserves

In addition to retained 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 2009, the aggregate amount of reserves available for distribution to equity holders of the Company was $4,521,010,000 (2008: $2,869,452,000).

(j) Dividends

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

	2009 $'000	2008 $'000
Interim dividend declared and paid of $0.150 (2008: $0.110) per share	**250,870**	168,417
Final dividend proposed after the balance sheet date of $0.150 (2008: $0.080) per share	**250,983**	122,485
	501,853	290,902

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

35 Reserves and dividends *(continued)*

(j) Dividends (continued)

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

	2009 **$'000**	2008 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.080 (2008: $0.080) per share	**122,780**	122,419

In respect of the dividends attributable to the year ended 31 December 2008, 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.

36 Financial risk management and fair values

(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.

36 Financial risk management and fair values *(continued)*

(b) *Liquidity risk*

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

The Group

31 December 2009

	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	**3,132,454**	**3,152,514**	**1,845,492**	**1,281,296**	**1,294**	**24,432**	**—**
Finance lease liabilities	**164,888**	**282,174**	**3,270**	**3,270**	**6,540**	**24,785**	**244,309**
Trade and other payables	**1,080,971**	**1,080,971**	**1,080,971**	**—**	**—**	**—**	**—**
Derivative financial liabilities:							
Forward exchange contracts							
– outflow	**353,898**	**353,898**	**185,810**	**168,088**	**—**	**—**	**—**
– inflow	**(350,119)**	**(350,119)**	**(183,761)**	**(166,358)**	**—**	**—**	**—**
	4,382,092	**4,519,438**	**2,931,782**	**1,286,296**	**7,834**	**49,217**	**244,309**

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 risk management and fair values *(continued)*

(b) Liquidity risk (continued)

The Company

31 December 2009

	Carrying amount $'000	Contractual cash flows $'000	6 months or less $'000	6 - 12 months $'000	1 - 2 years $'000	2 - 5 years $'000
Other payables	**6,260**	**6,260**	**6,260**	**—**	**—**	**—**

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
Bank loans	1,599,164	1,625,279	556,293	295,953	597,602	175,431
Other payables	13,984	13,984	13,984	—	—	—
	1,613,148	1,639,263	570,277	295,953	597,602	175,431

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

36 Financial risk management and fair values *(continued)*

(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 2009 and 2008 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 the Group's retained earnings and profit after tax by approximately $1,609,000 (2008: $1,186,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

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.

(d) *Foreign currency risk*

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

	The Group		**The Company**	
	2009 US$'000	2008 US$'000	**2009 US$'000**	2008 US$'000
United States dollars ("USD"):				
Current assets	**14,028**	642	**378**	257
Current liabilities	**(44,271)**	(54,000)	**—**	(54,000)
Non-current liabilities	**—**	(54,000)	**—**	(54,000)
	(30,243)	(107,358)	**378**	(107,743)

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

36 Financial risk management and fair values *(continued)*

(e) *Fair value*

Fair values versus carrying amounts

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 and derivative financial liabilities 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 estimated by discounting estimated future cash flows using the Group's financing interest rate is as follow:

	2009		2008	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair Value $'000
Long term bank loans	**24,361**	**24,361**	833,062	833,062
Finance lease liabilities	**164,888**	**113,215**	178,463	185,766

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

	2009	2008
Long term bank loans	**5.76%**	3.22% -5.76%
Finance lease liabilities	**5.69%**	3.72%

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

36 Financial risk management and fair values *(continued)*

(e) Fair value (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

— Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

— Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2009				
Available-for-sale financial assets	—	**5,734**	—	**5,734**
Derivative financial liabilities	—	**3,779**	—	**3,779**

During the year, there were no significant transfers between instruments in Level 1 and Level 2.

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:

	2009	2008
	$'000	$'000
Within 1 year	**382**	381
After 1 year but within 5 years	**1,458**	1,473
Over 5 years	**3,646**	4,005
	5,486	5,859

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 2009 not provided for in the financial statements were as follows:

	2009	2008
	$'000	$'000
Contracted for	**152,422**	241,809
Authorised but not contracted for	**236,020**	277,904
	388,442	519,713

38 Related party transactions

During the years ended 31 December 2009 and 2008, transactions with the following parties are considered as related party transactions.

Name of party

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

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

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

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

Danjiangkou Furun Poultry Product Co., Ltd. ("Danjiangkou Furun") (note (i))
丹江口福潤禽業食品有限公司

Daye Furun Poultry Product Co., Ltd. ("Daye Furun") (note (i))
大冶福潤禽業食品有限公司

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

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

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

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

Jiangsu Yurun Food Industry Group Co., Ltd. ("Jiangsu Yurun Food Group") (note (i))
江蘇雨潤食品產業集團有限公司

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

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

Linyi Furun Poultry Product Co., Ltd. ("Linyi Furun") (note (i))
臨邑福潤禽業食品有限公司

38 Related party transactions *(continued)*

Name of party *(continued)*

Nanjing Jinfurun Food Joint Stock Co., Ltd. ("Jinfurun") (note (i))
南京金福潤食品有限公司

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

Shouxian Furun Poultry Product Co., Ltd. ("Shouxian Furun") (note (i))
壽縣福潤禽業食品有限公司

Shulan Furun Poultry Product Co., Ltd. (note (i))
舒蘭福潤禽業食品有限公司

Willie Holdings Limited ("Willie") (note (i))

Xuzhou Furun Poultry Product Co., Ltd. ("Xuzhou Furun") (note (i))
徐州福潤禽業食品有限公司

Itoham (note (ii))
伊藤食品（北京）有限公司

Notes:

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

(ii) Itoham is an associate of the Group.

(iii) Mr Zhu Yicai was the beneficial owner of Anhui Xuerun. He disposed the equity interest in Anhui Xuerun during the year.

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

38 Related party transactions *(continued)*

(a) Significant related party transactions

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

	2009 $'000	2008 $'000
Sales of meat and by-products		
Anhui Xuerun	**239**	7,240
Sales of raw materials		
Anhui Xuerun *	**1,423**	2,697
Anqing Furun	**—**	50
Itoham	**988**	831
Total	**2,411**	3,578
Purchases of raw materials		
Anqing Furun	**8,088**	9,837
Liaocheng Furun	**19,354**	16,901
Xuzhou Furun	**983**	—
Shouxian Furun	**859**	—
Danjiangkou Furun	**4,409**	—
Daye Furun	**1,089**	—
Linyi Furun	**3,017**	—
Total	**37,799**	26,738
Purchases of finished goods		
Anhui Xuerun **	**19,128**	102,235
Itoham	**3,205**	3,773
Total	**22,333**	106,008

* The cost of sales of raw materials to Anhui Xuerun and the deemed distribution fee to Anhui Xuerun amounted to $1,382,000 (2008: $2,618,000) and $41,000 (2008: $79,000) respectively.

** The related sales of finished goods purchased from Anhui Xuerun and the deemed distribution fee from Anhui Xuerun amounted to $19,720,000 (2008: $105,397,000) and $592,000 (2008: $3,162,000) respectively.

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 2009 amounted to $6,916,000 (2008: $7,710,000).

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 shared office premises with Willie during the year ended 31 December 2009. The rental paid or payable to Willie and certain expenses borne by the Company amounted to $2,506,000 for the year ended 31 December 2009 (2008: $2,492,000).

(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 $34,775,000 (2008: $33,697,000) as at 31 December 2009 to the Group. No rental is paid or payable by any of the group companies.

(v) Termination of contractual arrangement

During the year ended 31 December 2009, the contractual arrangement between the Group and Jinfurun was terminated. Upon termination of the contractual arrangement, the Group acquired certain machinery from Jinfurun at the carrying value of $1,568,000.

(vi) 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.

38 Related party transactions *(continued)*

(a) Significant related party transactions (continued)

(vii) Use of trademarks

During the years ended 31 December 2009 and 2008, 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.

(b) Amounts due from related companies

	2009	2008
	$'000	$'000
Trade		
Anhui Xuerun	**—**	2,205
Itoham	**4**	—
Total	**4**	2,205

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 2009 and 2008.

38 Related party transactions *(continued)*

(c) *Amounts due to related companies*

	2009 $'000	2008 $'000
Trade		
Anhui Xuerun	—	13,415
Anqing Furun	—	3,721
Liaocheng Furun	1,716	4,647
Itoham	3,004	—
Danjiangkou Furun	243	—
Linyi Furun	200	—
Shouxian Furun	428	—
Xuzhou Furun	334	—
	5,925	21,783
Non-trade		
Willie	4,998	2,492
Itoham	—	1,450
	4,998	3,942
Total	10,923	25,725

Amounts due to related parties are unsecured, interest free and have no fixed terms of repayment.

(d) *Key management personnel remuneration*

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

	2009 $'000	2008 $'000
Salaries and other emoluments	7,524	6,857
Contributions to retirement benefit schemes	224	247
Share-based payment	6,783	11,036
Total	14,531	18,140

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

39 Subsequent event

On 29 March 2010, the board of directors of the Company approved a capital expenditure plan for 2010 amounting to $1,988,636,000.

40 Immediate and ultimate holding company

The directors consider the immediate and ultimate holding company of the Company as at 31 December 2009 to be Willie Holdings Limited incorporated in the BVI. This entity does not produce financial statements available for public use.

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, investment properties and financial instruments. Other sources of estimation uncertainties are as follows:

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

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

(ii) Depreciation

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

(iii) Impairment of trade receivables

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

(iv) Net realisable value of inventories

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

(Expressed in Hong Kong dollars)

41 Accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty (continued)

(v) Taxation

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

42 Comparative figures

As a result of the application of IAS 1 (Revised 2007), "Presentation of financial statements" and IFRS 8 "Operating segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2(e).

During the year ended 31 December 2008, the initial accounting for the acquisitions of Changchun Food Group Company was determined provisionally. As required by IFRS 3, "Business combinations", comparative figures have been adjusted to recognise the adjustments to those provisional values as a result of completing the initial accounting as if the initial accounting had been completed on the respective acquisition dates. Certain assets items of Changchun Food Group Company as at 31 December 2009 have been reclassified as a result of completing the initial accounting. Further details on the acquisition of Changchun Food Group Company are disclosed in note 7.

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2009

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 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
IFRS 3 (Revised), "*Business combinations*"	1 July 2009
Amendments to IAS 27, "*Consolidated and separate financial statements*"	1 July 2009
IFRIC 17, "*Distributions of non-cash assets to owners*"	1 July 2009
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

List of Principal Subsidiaries

Appendix 1

The following list contains only the particulars of subsidiaries as at 31 December 2009 which principally affected the results, assets or liabilities of the Group.

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activity
Anhui Furun Meat Processing Co., Ltd (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
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
Hunan Huihong Food Co., Ltd. (note (iii)) 湖南輝鴻食品有限公司	PRC	Rmb9,848,500/ Rmb9,848,500	—	100	Slaughtering, production and sales of chilled and frozen meat
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
Kaifeng Furun Meat Product Co., Ltd. (note (iii)) 開封福潤肉類食品有限公司	PRC	Rmb10,000,000/ Rmb10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Kaiyuan Furun Meat Product Co., Ltd. (note (iii)) 開原市福潤肉類食品有限公司	PRC	Rmb10,000,000/ Rmb10,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat
Lianyungang Furun Food Co., Ltd. (note (ii)) 連雲港福潤食品有限公司	PRC	US$53,000,000/ US$53,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat

Appendix 1 *(continued)*

Name of company (note (iv))	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
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
Suzhou Wanrun Meat Processing Co., Ltd. (note (i)) 宿州萬潤肉類加工有限公司	PRC	US$3,000,000/ US$3,000,000	—	100	Slaughtering, production and 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
Liangyungang Yurun Food Co., Ltd. (note (i)) 連雲港雨潤食品有限公司	PRC	US$67,500,000/ US$67,500,000	—	100	Production and sales of processed meat products and frozen meat
Maanshan 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
Harbin Popular Food Co., Ltd. (note (ii)) 哈爾濱大眾肉聯食品有限公司	PRC	US$7,000,000/ US$7,000,000	—	93	Slaughtering, production and sales of chilled and frozen meat and processed meat products
Shenyang Furun Food Co., Ltd. (note (i)) 瀋陽福潤肉類加工有限公司	PRC	US$30,000,000/ US$30,000,000	—	100	Slaughtering, production and sales of chilled and frozen meat and processed meat products

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)

	2005 $'000	2006 $'000	2007 $'000	2008 $'000	**2009** **$'000**
Assets and liabilities					
Non-current assets	589,304	1,293,445	2,970,991	5,065,556	**7,733,573**
Net current assets	1,844,598	1,356,342	2,363,485	1,237,613	**988,738**
Total assets less current liabilities	2,433,902	2,649,787	5,334,476	6,303,169	**8,722,311**
Non-current liabilities	(278,461)	(188,613)	(1,003,636)	(1,068,074)	**(322,132)**
Net assets	2,155,441	2,461,174	4,330,840	5,235,095	**8,400,179**
Share capital	145,195	145,195	152,695	153,107	**167,322**
Reserves	2,010,246	2,303,523	3,986,480	5,061,849	**8,202,380**
Total equity attributable to equity holders of the Company	2,155,441	2,448,718	4,139,175	5,214,956	**8,369,702**
Minority interests	—	12,456	191,665	20,139	**30,477**
Total equity	2,155,441	2,461,174	4,330,840	5,235,095	**8,400,179**
Operating results					
Turnover	4,229,786	4,621,336	8,635,117	13,023,901	**13,870,428**
Result from operating activities	377,948	474,703	871,561	1,175,242	**1,955,734**
Net finance (expenses)/income	(32,134)	11,886	41,218	64,001	**(64,404)**
Share of loss of an associate	(481)	(1,224)	(761)	(781)	**(113)**
Profit before income tax	345,333	485,365	912,018	1,238,462	**1,891,217**
Income tax expense	(7,297)	(5,504)	(51,189)	(101,449)	**(142,573)**
Profit for the year	338,036	479,861	860,829	1,137,013	**1,748,644**
Attributable to:					
Equity holders of the Company	338,036	480,963	859,319	1,137,781	**1,745,288**
Minority interests	—	(1,102)	1,510	(768)	**3,356**
Profit for the year	338,036	479,861	860,829	1,137,013	**1,748,644**
Earnings per share					
Basic ($)	0.324	0.331	0.584	0.744	**1.089**
Diluted ($)	0.323	0.331	0.582	0.736	**1.074**

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 2009 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. 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.