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

2010 Annual Report

As a leading enterprise in the hog slaughtering and meat products industry, Yurun Food has achieved robust growth for consecutive years on the back of its unique competitive advantages. Our healthy, quality, delicious and high-end meat products have been well received by consumers as the ideal ingredients for dining at home as well as casual gatherings. Looking forward, Yurun Food will remain committed to the highest level of quality and safety, and by upholding the philosophy of "You trust because we care", we strive to bring quality meat products to consumers as well as satisfactory returns to shareholders.

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Design, Photography and Production: **HeterMedia Services Limited**

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.
Bank of China Limited
Huishang Bank Corporation Limited
Agricultural Bank of China Limited
China Merchant Bank Co., Ltd.
China CITIC Bank Corporation Limited

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 Fulcrum Group (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

Leveraging on its dynamic distribution strategy and production network planning, Yurun Food continued to expand its market share and maintained its leading position in the industry.

Chairman's Statement

Benefiting from our leading hog slaughtering capacity, successful market strategies and abundant nation-wide hog supply, the Group recorded a turnover of HK$21.473 billion, and profit attributable to shareholders of HK$2.728 billion during the Review Year, representing an increase of 54.8% and 56.3% respectively as compared to last year.

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 2010 (the "Review Year").

Business Review

In 2010, growth of the Chinese economy remained strong, and the average annual income of Chinese residents continued to rise. Moreover, the steady increase in urbanization led to growing demand for quality meat products, which created a favorable business environment for the nation-wide hog product industry, and also the market leaders.

Furthermore, the nation-wide implementation of the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" (the "Guideline") launched by the Central Government in late 2009 gradually eliminated outdated production capacity and optimized the industry structure, motivating the consolidation of the slaughtering industry and reaffirmed the sustained and stable development of the industry in China. It allowed the leading enterprises of the industry to increase their market share through consolidation of market resources. In fact, the Group has been preparing for the industry consolidation for many years. Through mergers and acquisitions, as well as the enhancement and upgrading of equipment, we have steadily achieved strategic upstream and downstream expansion and enhanced our nation-wide market distribution, creating a solid foundation in production capacity, management, branding and markets for the Group. Benefiting from the constantly improving macro economic environment and favorable policies, Yurun Food continued to achieve gleaming results and market share enhancement during the Review Year, which strengthened the foundation for the Group's steady business growth.

In 2010, hog prices experienced enormous fluctuations. In the first half of the year, hog prices continually decreased and some hog farmers experienced losses. In order to prevent hog prices from excessive decline, and to protect the interests of hog farmers, as well as to stabilize hog production, the Central Government launched a series of measures in various regions to stabilize prices and supply since April last year, which effectively curbed the falling price trend and contributed to a stable rise in hog prices during the second half of the year. In addition, the continual abundant hog supply in China provided strong momentum for the steady development of the Chinese meat products market, while it also facilitated the Group's steady expansion in its nation-wide production capacity and market distribution in the extremely fragmented Chinese meat products market, and propelled Yurun's overall business growth.

In 2010, the Group recorded a turnover of HK$21.473 billion, and profit attributable to shareholders of HK$2.728 billion, representing an increase of 54.8% and 56.3% respectively as compared to last year. During the Review Year, benefiting from the Group's leading hog slaughtering capacity and abundant nation-wide hog supply, slaughtering volume recorded a significant increase of 54.2% to approximately 15.09 million heads as compared to last year, which facilitated the sales of upstream chilled pork products and further improved the Group's economies of scale, serving as the main driving force for the Group's business growth. Meanwhile, the market share of Yurun Food continued to grow during the Review Year. The Group ranked number one in China in terms of slaughtering and sales volume of hogs. The market share of its low temperature meat products ("LTMP") also ranked number one in China in the large-scale retailing market for 10 consecutive years.

Leveraging on the thorough understanding of the hog market's cyclical and price trends by our management, Yurun Food implemented prudent hog procurement and inventory strategies and dynamically adjusted the mix of its upstream chilled pork products and downstream LTMP business segments during the Review Year. Yurun Food was successful in minimizing the impact of price volatility.

During the Review Year, the Group continued to implement stringent quality control procedures to ensure that rigorous tests are in place to monitor all processes ranging from raw material procurement to production so that our products are in line with national and international food safety standards.

In addition, the Group continued to increase its upstream and downstream production capacity and market penetration through mergers and acquisitions and equipment upgrading, so as to capture the business opportunities brought by the accelerated industry consolidation and growing market demand for quality pork products.

In 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 position of the flagship brand, "Yurun", was further elevated.

Prospect

The global economy is gradually recovering and the Chinese economy is anticipated to maintain strong growth. The increasing per-capita disposable income of Chinese residents and the growing pattern of supermarket shopping in cities will lead to growth in demand for quality meat products and enhancement in the business environment for the meat products industry. The Central Government successfully implemented policies for chilled meat reserves to restore market and breeder confidence. This will aid to continue the abundant supply of hogs and steady growth of the hog slaughtering and meat processing industry.

The Central Government aims to extensively eliminate outdated hog slaughtering capacity which does not conform to the hygienic and technological management standards across the nation before 2015, further facilitating industry consolidation. Supported by the improving consumer market and policies favourable to stable hog supply, the Group's two major businesses, chilled pork and LTMP, will benefit from abundant hog supply and further industry consolidation, promoting remarkable overall growth.

As compared with western countries like the US, Netherlands and Denmark, the market share of leading pork processing enterprises in China is relatively small and has enormous potential for growth. Under the guidance of its outstanding management team and benefiting from favourable government policies, the Group will continue to rapidly expand its upstream and downstream capacity in 2011 and to strengthen its nation-wide distribution and brand recognition in the extremely fragmented meat products market in China, so as to capture any lucrative opportunities arising from industry consolidation and to deliver even better results. In addition, Yurun Food will continuously enhance its quality control procedures to maintain a high standard of hygiene and product safety throughout our production, transportation and distribution processes and to provide quality-assured meat products to the public.

Acknowledgement

Yurun Food is committed to becoming the leading meat products manufacturer in China. On behalf of the Board, I would like to take this opportunity 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, we will remain committed to the highest level of product quality, safety and hygiene and provide quality meat products to the public under our motto of "you trust because we care", by maintaining the highest level of quality and safety. We will grow steadily in the meat products market and bring satisfactory returns to shareholders.

Zhu Yicai
Chairman
Hong Kong, 29 March 2011

The Group will continue to expand its capacity and to accelerate the enhancement of its nation-wide production capacity in the coming years, so as to capture the tremendous business opportunities brought by industry consolidation.

Management Discussion and Analysis

Leveraging on its stringent quality control, Yurun Food has successfully become an icon of food safety and quality among customers. We will continue to produce products of the highest quality and create new trends in food consumption with more competitive products, so as to further enlarge our market share and satisfy growing market demand.

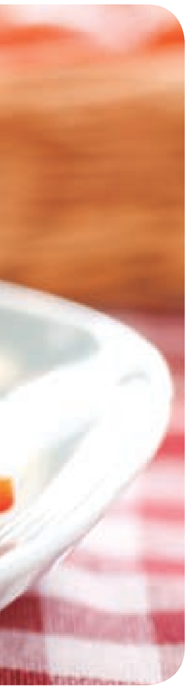
Industry Overview

In 2010, the Chinese economy continued to maintain a strong momentum with a GDP growth rate of 10.3%, which created a favourable macroeconomic environment for the overall Chinese consumption market. However, significant hog price volatility during the year ended 31 December 2010 (the "Review Year") brought tremendous challenges to the pork products industry in China.

During the Review Year, hog prices experienced enormous fluctuations. In early 2010, hog prices dropped drastically. The Central Government subsequently increased nation-wide pork reserves in several regions in accordance with the "Contingency Plan on Preventing Excessive Drop in Hog Price" once again during the second quarter of 2010, allowing the market to regain confidence and as a result, hog prices gradually picked up in the second half of 2010. Benefiting from the sustained prosperity of the Chinese economy, the Central Government's favourable and supportive industry policies, as well as the growing demand for quality meat products from Chinese consumers, there is strong momentum for the steady development of the Chinese meat products market and market leaders.

During the Review Year, the hog slaughtering industry in China continued to develop systematically. After the Central Government had promulgated the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" (the "Guideline") in late 2009, it started eliminating domestic outdated manual and semi-mechanical hog slaughtering capacity gradually in 2010, targeting to achieve the closure of over 50% of outdated capacity eventually by 2015. As the industry structure is continually enhanced, consolidation of the industry will be greatly motivated and the sustained and stable development of the slaughtering industry in China can be reaffirmed. As the market leader in the Chinese hog slaughtering industry and meat products industry, China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group") further increased its market share through integration of market resources and the optimization of its markets and production capacity. This not only contributes to strengthen the Group's leading market position, but also accelerates the implementation of its business strategy of realizing long-term business development.

Due to the implementation of the Guideline and the continuous industry consolidation, we believe that Chinese meat products market will systematically increase the market sales ratio of chilled pork products and small packaged pork products in the future. According to the Guideline, market shares 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. This will be favourable for market leaders



with advanced modern production facilities which meet national and international standards of product quality control procedures to accelerate nation-wide capacity expansion and continuously grow larger and stronger in a highly fragmented market.

Business Review

In 2010, faced with challenging market conditions due to hog price volatility, Yurun Food was able to further enhance its market penetration and economies of scale to maintain strong business growth by leveraging on its leading nation-wide market position, strategic production capacity expansion and strong brand advantages. Chilled pork products and low temperature meat products ("LTMP") with higher added value continued to be the key drivers of the Group's business growth and stable source of revenue.

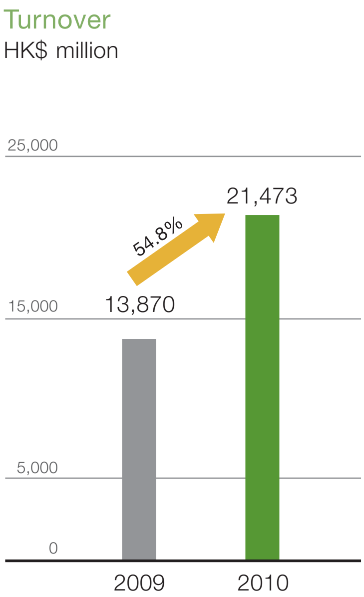
Furthermore, benefiting from its strong brand recognition, flexible strategic adjustment of upstream and downstream business segments and inventory measures, the Group's upstream slaughtering volume increased significantly during the Review Year. Together with its usual market-based pricing strategy, the Group was able to maintain a healthy level of profitability for its overall business and promote rapid business growth.

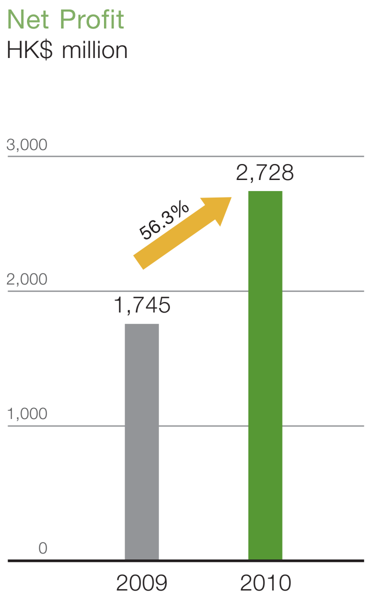
Product Quality and R&D

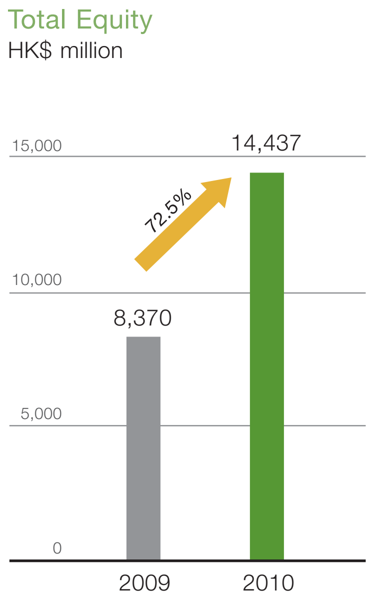
Yurun Food has always persisted in producing products of the highest quality. We have implemented rigorous internationally recognized internal quality controls in every production process, ranging from procurement, production, logistics to sales, to ensure our products are in line with national and international food safety standards. Capitalising on its stringent quality control, Yurun Food successfully became an icon of food safety and quality among the customers at large.

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 advantages and strengthen its leading position in the industry. Given the expanded scale of China's urbanization and growing preference of consumers to purchase from supermarkets, demand for high quality mid-to-high end meat products has correspondingly increased. During the Review Year, the Group's overall sales volume of its upstream and downstream businesses (before inter-segment eliminations) increased significantly to 1,457,000 tons, up 475,000 tons compared to that of last year.

Management Discussion and Analysis







Sales and Distribution

Being the Group's high-end products with relatively higher gross margin and added value, chilled pork and LTMP continued to play an important role in contributing to the Group's overall turnover and profit during the Review Year. In 2010, sales of chilled pork reached HK$15.198 billion, representing an increase of 61.3% over that of last year, accounting for approximately 67% (2009: 63%) of total turnover prior to inter-segment eliminations and approximately 81% (2009: 80%) of total turnover of the upstream business segment. Sales of LTMP achieved HK$3.525 billion, representing an increase of 14.4% over that of last year, accounting for approximately 16% (2009: 21%) of total turnover prior to inter-segment eliminations and approximately 92% (2009: 94%) of total turnover of the downstream business segment.

Production Facilities and Production Capacity

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

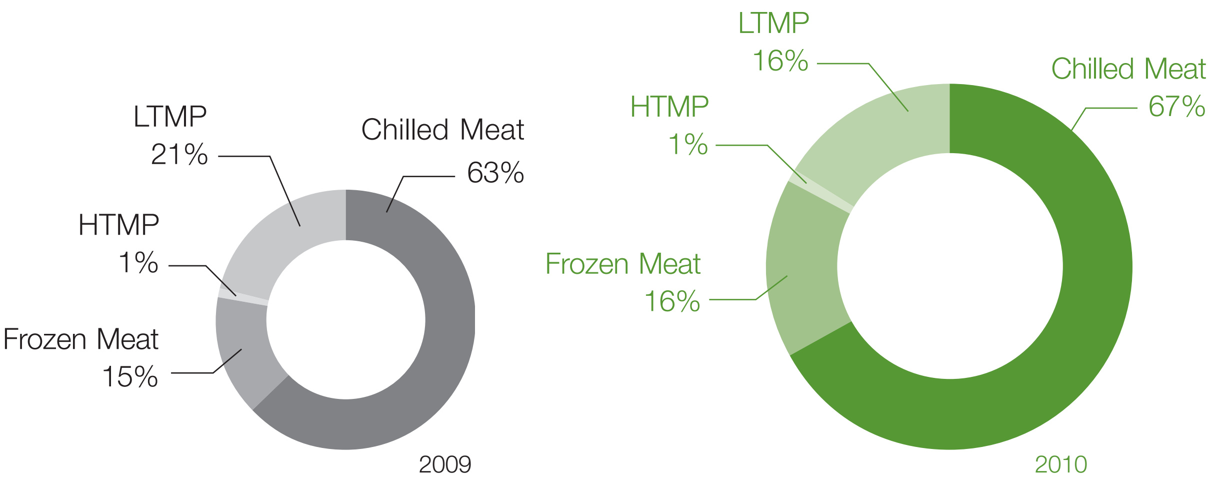
With respect to its upstream slaughtering segment, the slaughtering capacity of the Group reached 35.60 million heads per year by the end of 2010, representing an increase of 10.05 million heads compared to that at the end of 2009. The Group will continue to expand its capacity and accelerate the enhancement of its nation-wide production capacity in the coming years.

As at the end of 2010, the Group's annual downstream meat processing capacity reached 304,000 tons. The Group will continue to expand its capacity in the coming years, targeting to increase market coverage, reduce bottlenecks and upgrade key production facilities.

Financial Review

The Group recorded a turnover of HK$21.473 billion in 2010, representing an increase of 54.8% as compared to HK$13.870 billion last year. Despite the fluctuation in hog prices during the year, the Group continued to record a sales increase in 2010 by leveraging on its "Yurun" brand and leading nation-wide production network. Sales volume of upstream chilled pork and downstream LTMP increased significantly by 63.6% and 11.9% respectively as compared to that of last year. Furthermore, as the Group maintained its market-based pricing strategy, the average selling price of upstream products therefore increased along with the rebounding hog price during the second half of 2010. Turnover from this segment (before inter-segment eliminations) increased by 60.3% from HK$11.746 billion in 2009 to HK$18.833 billion in 2010. Benefiting from strong brand recognition, pricing power, continuous optimization of product mix and increasing demand for high-quality meat products from consumers, the sales of downstream products also increased by 16.2% compared to that of last year.

Turnover breakdown by Segment*



* Including inter-segment sales

In 2010, the Group recorded a net profit of HK$2.728 billion (2009: HK$1.745 billion), up 56.3% from that of last year. Diluted earnings per share was HK$1.551, representing a significant growth of 44.4% over HK$1.074 of last year.

Turnover

Chilled and Frozen Pork

During the Review Year, the Group achieved a substantial growth of 54.2% in slaughtering volume compared to that of last year.

In 2010, total sales generated from the upstream business (before inter-segment eliminations) increased by 60.3% to HK$18.833 billion year on year. Sales of chilled pork increased by 61.3% to HK$15.198 billion, accounting for approximately 81% (2009: 80%) of the total turnover of the upstream business. Sales of frozen pork increased by 56.4% to HK$3.635 billion, accounting for approximately 19% (2009: 20%) of the total turnover of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products reached HK$3.821 billion (2009: HK$3.289 billion), up 16.2% from that of 2009.

Turnover of LTMP for the Review Year was HK$3.525 billion, representing an increase of 14.4% as compared to HK$3.081 billion in 2009. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 92% (2009: 94%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$296 million (2009: HK$208 million), accounting for approximately 8% (2009: 6%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 43.3% from HK$2.161 billion in 2009 to HK$3.098 billion in 2010. Gross profit margin slightly decreased by 1.2 percentage points to 14.4% from 15.6% in 2009. The slight decrease in gross profit margin was mainly due to the substantial increase in the proportion of sales of upstream products during the Review Year which have relatively lower margins as compared to downstream products.

With respect to the upstream business, gross profit margin of chilled and frozen pork was 11.3% and 7.2% respectively (2009: 11.5% and 6.3% respectively). Overall gross profit margin remained stable at 10.5% (2009: 10.4%).

With respect to downstream products, gross profit margin of LTMP was 29.9%, representing an increase of 0.9 percentage point compared to last year's 29.0%. Gross profit margin of HTMP was 22.7%, representing an increase of 1.3 percentage points compared to that of last year. Overall gross profit margin of the downstream segment was 29.3%, an increase of 0.7 percentage point of last year.

Other Operating Income

During the Review Year, other operating income of the Group increased to HK$966 million, representing a significant growth as compared to HK$625 million in 2009. Other operating income mainly included government subsidies and negative goodwill. Government subsidies increased significantly to HK$713 million from HK$426 million in 2009, which was mainly attributable to the continued incentives provided by the PRC Government to support the development of agricultural industry. Negative goodwill arising from acquisitions was HK$186 million, increasing from HK$119 million in 2009.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.090 billion, representing an increase of 31.3% compared to HK$830 million in 2009. Operating expenses only represented 5.1% of the Group's turnover, a significant decrease of 0.9 percentage point as compared to 6.0% of last year, demonstrating the Group's ability to achieve economies of scale amid rapid business expansion.

Operating Profit

In 2010, operating profit of the Group was HK$2.974 billion and significantly increased by 52.1% from HK$1.956 billion of last year.

Finance Costs

In 2010, net finance costs of the Group was HK$48 million (2009: HK$64 million).

Income Tax

The total income tax for the year ended 31 December 2010 was HK$189 million, an increase of 32.6% as compared to HK$143 million of last year. Effective tax rate for the year was 6.5%, representing a decrease of 1.0 percentage point as compared to 7.5% in 2009.


Net Profit

Taking into account of all the above factors, profit for the year attributable to equity holders of the Company soared 56.3% from HK$1.745 billion in 2009 to HK$2.728 billion in 2010. Net profit margin was 12.7%, representing an increase of 0.1 percentage point from 12.6% of last year, reaching a historical high level. To conclude, the Group realized remarkable growth in many aspects, once again 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 totaling HK$3.508 billion from the placing of 90 million new shares at the price of HK$23.88 per share in April 2010 and the placing of 47 million new shares at the price of HK$30.00 per share in November 2010 respectively. The Group's net cash inflow from operating activities in 2010 amounted to HK$2.986 billion. Cash balance and pledged deposits of bank loan amounted to HK$6.351 billion as at 31 December 2010, representing an increase of HK$3.050 billion as compared to HK$3.301 billion as at 31 December 2009.

As at 31 December 2010, the Group had outstanding loans of HK$3.681 billion, representing an increase of HK$549 million from HK$3.132 billion as at the end of 2009. HK$3.151 billion (2009: HK$3.108 billion) of our borrowings was repayable within one year and 90.5% (2009: 87.9%) of our borrowings was denominated in Renminbi ("RMB"). The fixed rate debt ratio of the Group was 63.8% (2009: 90.1%) as at 31 December 2010. 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. In addition, the Group possessed a steady and abundant operating cash flow and appropriate financing arrangements were made to satisfy the needs of debt repayment, if any, and capital expenditure.

Assets and Liabilities

As at 31 December 2010, the total assets and total liabilities of the Group were HK$20.361 billion and HK$5.878 billion respectively, representing an increase of HK$7.426 billion and HK$1.343 billion as compared to those at 31 December 2009 respectively.

Management Discussion and Analysis

As at 31 December 2010, equity attributable to equity holders of the Company was HK$14.437 billion, representing an increase of HK$6.067 billion as compared to HK$8.370 billion as at 31 December 2009.

As at 31 December 2010, 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 21.1% and significantly decreased from 28.3% as at 31 December 2009. As at 31 December 2010, the Group was in net cash position.

Charges on Assets

As at 31 December 2010, certain properties and lease prepayments of the Group with a carrying amount of HK$44.76 million and HK$31.95 million respectively (2009: HK$44.36 million and HK$31.33 million respectively) were pledged against certain bank loans with a total amount of HK$80.87 million (2009: HK$77.58 million).

As at 31 December 2010, the Group had no bank loan secured by pledged deposits. In 2009, the secured bank loans totaling HK$380 million were secured by pledged deposits denominated in RMB amounting to HK$378 million.

As at 31 December 2010, intragroup bills payable totaling HK$379 million (2009: HK$863 million) were secured by pledged deposits amounting to HK$161 million (2009: HK$380 million). The corresponding intragroup bills receivable totaling HK$379 million (2009: HK$863 million) were discounted with recourse for proceeds of HK$377 million (2009: HK$861 million).

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

The preliminary capital expenditure plan for 2011 approved by the Board amounts to approximately HK$3.0 billion. As at the date of this report, the budget and plan are yet to be finalised and the Group has not identified any particular targets or opportunities at this stage. Save as disclosed herein, the Group did not hold any other significant investment or had any material acquisition and sale of subsidiaries during the Review Year. As at the date of this report, the Group has no plan to make any significant investment in or acquisition of capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 31 December 2010.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The business of the Group was mainly conducted in RMB except that the purchases of some equipment and raw materials and payment of certain professional fees were in United States dollars ("USD"), Euros or Hong Kong dollars. The functional currency of the PRC subsidiaries is RMB which is not freely convertible. The Group has entered into certain USD and Euros foreign exchange forward contracts. The Group will monitor its exposure by taking into account of the factors including but not limited to the exchange rate movement of the relevant foreign currencies and the cashflow requirements of the Group to keep the risk at an acceptable level.

Human Resources

As at 31 December 2010, the Group hired a total of 21,231 (2009: 16,458) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$598 million (2009: HK$413 million), accounting for 2.8% (2009: 3.0%) 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 47, 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, a substantial shareholder of the Company. Mr. Zhu founded the Group in 1993 and has 18 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 delegate to the National People's Congress for two consecutive sessions in 2003 and 2008.

Mr. Zhu Yiliang, aged 45, 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 15 years of 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 55, 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 Food Co., Ltd. Mr. Feng has 17 years of experience in the industry.

Mr. Ge Yuqi, aged 55, 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 30 years of experience in the industry.

Mr. Yu Zhangli, aged 43, 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 Meat 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 45, 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 Ministry of Aeronautics and Astronautics.

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

Mr. Li Chenghua, aged 46, has been a non-executive Director of the Company since January 2010. Mr. Li is a vice president and researcher of 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 42, 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 Jinling Engineering Consulting and Management Company Limited. Mr. Gao graduated from Jiangsu Radio and TV University specialising in finance and accounting.

Mr. Qiao Jun, aged 48, 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 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 the Shenzhen Stock Exchange, since May 2008.

Mr. Chen Jianguo, aged 49, 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 36, is the Vice President and Company Secretary of the Company. She joined the Group in April 2005 and has more than 15 years of experience in accounting, finance and auditing. Miss Lee was formerly the Chief Financial Officer of the Group. She was promoted to the Vice President of the Group in December 2010 and is now primarily responsible for overseeing the Group's Financial Controller and finance team in Hong Kong. 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 her departure. 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 35, joined the Group in August 1999 and is the Assistant to the Vice President and the General Manager of the Group's processed meat business division. Mr. Li is responsible for the Group's processed meat products business. He holds a master's degree in corporate management from Nanjing University of Technology, a bachelor's degree in law from Nanjing University and a bachelor's degree in economics from Nanjing University of Chemical Technology. Mr. Li has 11 years of experience in the industry.

Mr. Zhang Degang, aged 38, joined the Group in July 2000 and is the General Manager of the Group's Development Department. He is mainly involved in mergers and acquisitions by the Group. Mr. Zhang obtained a master's degree in economics from Anhui University and was admitted as a PRC lawyer. He has 11 years of experience in the industry.

Mr. Xu Baocai, aged 37, 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 doctorate in engineering from the School of Food Science and Technology of Jiangnan University (formerly Wuxi University of Light Industry). He has 8 years of experience in the industry.

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 2010 annual report, together with the report of the Directors and the audited financial statements of the Group for the year ended 31 December 2010.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the provision 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 2010 and the state of affairs of the Group as at that date are set out in the audited financial statements on pages 39 to 115.

The Board recommended a final dividend of HK$0.20 (2009: HK$0.15) per share. This final dividend, together with the interim dividend of HK$0.20 (2009: HK$0.15) per share, will make a total dividend of HK$0.40 (2009: HK$0.30) per share for the whole year ended 31 December 2010.

Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on or about Monday, 13 June 2011 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 31 May 2011.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2010 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 35 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 937,000 shares of the Company under the share option scheme and the placing of an aggregate of 137,000,000 new ordinary shares in the Company to investors, details of which are set out in the Company's announcements dated 22 April 2010 and 4 November 2010.

Reserves

Details of the movements in the reserves of the Company during the year are set out in note 36 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 44 of this annual report.

Financial Summary

A summary of the published results and the assets and liabilities of the Group for the last five financial years is set out on page 116 of this annual report.

Distributable Reserves

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$8,016,860,000, of which approximately HK$362,231,000 has been proposed as a final dividend for the year.

Major Customers and Suppliers

During the year, the five largest customers of the Group in aggregate and the five largest suppliers of the Group in aggregate represented less than 30% of the Group's total revenues and total purchases respectively.

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 issued share capital, has any interest in any of the five largest customers and suppliers of the Group.

Report of the Directors

Directors

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

Executive Directors

Zhu Yicai R/N	*Chairman*
Zhu Yiliang	*Chief Executive Officer*
Feng Kuande	
Ge Yuqi	
Yu Zhangli	*(appointed on 8 January 2010)*

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)*
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 Yicai, Feng Kuande, Gao Hui and Qiao Jun 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, Qiao Jun and Chen Jianguo, the independent non-executive Directors, 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 Kang Woon 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 18 to 19 of this annual report.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing from 3 October 2009 (except for the newly appointed executive Director, Yu Zhangli, whose appointment commenced on 8 January 2010). 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 a written confirmation from Feng Kuande in March 2011, pursuant to which he has agreed to waive part of his remuneration payable by the Group for the services rendered for the year ended 31 December 2010.

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

Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a fixed term of three years commencing on 3 October 2009 except for the newly appointed non-executive Directors, Wang Kaitian and Li Chenghua, and the newly appointed independent non-executive Directors, Qiao Jun and Chen Jianguo, whose appointments commenced on 8 January 2010. Each of these letters of appointment may be terminated by either party giving not less than one month's notice in writing.

Pursuant to the letters of appointment entered into between the Company and each of the non-executive and independent non-executive Directors (except for Jiao Shuge), each of Wang Kaitian, Li Chenghua, Qiao Jun and Chen Jianguo is entitled to a remuneration of RMB100,000 per annum and Gao Hui is entitled to a remuneration of HK$180,000 per annum. The Company received a written confirmation from Li Chenghua in March 2011, pursuant to which he has agreed to waive all of his remuneration payable by the Company for the services rendered for the year ended 31 December 2010.

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.

The Directors newly appointed during the year, namely, Yu Zhangli, Wang Kaitian, Li Chenghua, Qiao Jun and Chen Jianguo retired and re-elected at the Special General Meeting of the Company held on 3 February 2010 pursuant to Bye-law 86(2) of the Company's Bye-laws.

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 29 and pages 105 to 110 of this annual report respectively. Save for the above, no other Director had a material interest whether directly or indirectly in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year.

Management Contracts

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

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2010, the number of issued ordinary shares of the Company was 1,811,156,650; 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 (Chapter 571 of the Laws of Hong Kong) ("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 (4)	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	459,258,900(1)	–	459,258,900	25.36%
	Willie Holdings Limited	Beneficial owner	Corporate	100(1)	–	100	100.00%
Zhu Yiliang	Company	Beneficial owner	Personal	–	2,450,000	2,450,000	0.14%
Feng Kuande	Company	Beneficial owner	Personal	–	2,500,000	2,500,000	0.14%
Ge Yuqi	Company	Beneficial owner	Personal	–	2,500,000	2,500,000	0.14%
Yu Zhangli (3)	Company	Beneficial owner	Personal	–	150,000	150,000	0.01%

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) 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 2010, 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 unconditionally 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 defined below) 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 117,431,380 shares, representing approximately 6.47% of the total number of shares in issue of the Company.

(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 in issue of the Company at the time.

(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 not be lower than 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 2010[1]**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 31 December 2010**	**Option period [2] & [3]**
Directors						
Zhu Yiliang	2,500,000	–	(50,000)	–	2,450,000	10.11.2006 – 09.11.2016
Feng Kuande	2,500,000	–	–	–	2,500,000	10.11.2006 – 09.11.2016
Ge Yuqi	2,500,000	–	–	–	2,500,000	10.11.2006 – 09.11.2016
Yu Zhangli (appointed on 8 January 2010)	150,000	–	–	–	150,000	10.11.2006 – 09.11.2016
Subtotal	7,650,000[4]	–	(50,000)	–	7,600,000[4]	
Employees (including ex-employees)						
In aggregate	14,320,000	–	(887,000)	–	13,433,000	10.11.2006 – 09.11.2016
Total	21,970,000	–	(937,000)	–	21,033,000	

Notes:

(1) All share options were granted on 10 November 2006 and the exercise price is HK$7.46.

(2) The first batch share options was 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 grantees, if any, as set out in the individual offer letters, options will be vested in four equals, i.e., 25% of the options will be vested after the first, second, third and fourth anniversaries, respectively of the date of grant after the publication of the results of the relevant financial year.

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

(5) The closing price of the shares of the Company immediately before the date of grant (i.e. 9 November 2006) was HK$7.58.

(6) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$25.55.

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

Pursuant to a Board resolution dated 30 June 2010, to reward for the performance of certain staff members, 5,150,000 options of the fourth tranch which should be vested after the results announcement for the year ended 31 December 2010 were vested earlier on 1 July 2010.

Information on the accounting policy for share options granted is set out in note 34 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 2010 are set out in the paragraph headed "Share Option Scheme" on pages 25 to 27 of this annual report and note 34 to the financial statements.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2010, 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	Nature	Number of shares	Approximate percentage of the issued shares
Willie Holdings	Long position	459,258,900[1]	25.36%
Ms. Wu	Long position	459,258,900[1]	25.36%
JPMorgan Chase & Co.[2]	Long position	161,260,198	8.90%
	Short position	1,066,762	0.06%
	Lending pool	67,483,878	3.73%
Deutsche Bank Aktiengesellschaft	Long position	92,785,907	5.12%
	Short position	4,778,043	0.26%
	Lending pool	2,192,000	0.12%

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 these shares by virtue of Part XV of the SFO.

(2) So far as is known to the Directors of the Company, these shares were held by JPMorgan Chase & Co. and corporations controlled by it in the respective capacities as detailed below:

	Number of shares	
Capacity	**Long position**	**Short position**
Beneficial owner	3,492,320	1,066,762
Investment manager	90,284,000	–
Approved lending agent/Custodian	67,483,878	–

Save as disclosed above, as at 31 December 2010, 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.

Continuing Connected Transactions

Purchase of raw poultry meat from the Predecessor Entities (as defined below) and entities controlled by Mr. Zhu which are engaged in poultry product operations

On 12 December 2007, Nanjing Yurun Food Co., Ltd. ("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 Chicken Meat Purchase Agreements"). Pursuant to the agreements, each of Anqing Furun and Liaocheng Furun has agreed to supply raw chicken meat to Nanjing Yurun for its production use. 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 Chicken Meat Purchase Agreements shall be superseded 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) on a pricing basis identical to the 2007 Raw Chicken 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$171,702,000, which is equivalent to approximately 0.80% of the Group's audited turnover for the year ended 31 December 2010.

The 2009 Raw Poultry Meat Purchase Agreement had expired on 31 December 2010. On 20 December 2010, the entities controlled by Mr. Zhu (including but not limited to Anqing Furun, Danjiangkou Furun, Daye Furun, Fengqiu Furun Poultry Process Co., Ltd. ("Fengqiu Furun"), Liaocheng Furun, Linyi Furun, Shouxian Furun, Shulan Furun, Suixi Furun Poultry Product Co., Ltd. ("Suixi Furun"), Tuquan County Furun Poultry Product Co., Ltd. ("Tuquan Furun") and Xuzhou Furun) which are engaged in poultry product operations entered into a new purchase agreement ("New Purchase Agreement") with the Company for a term of three years commencing on 1 January 2011 and ending on 31 December 2013. Pursuant to the New Purchase Agreement, the relevant entities controlled by Mr. Zhu shall supply raw poultry meat to the Company (or such subsidiaries as may be directed and nominated by the Company from time to time) for its production use on a pricing basis identical to the 2009 Raw Poultry Meat Purchase Agreement. Details of the New Purchase Agreement have been disclosed in the Company's announcement dated 20 December 2010.

Notes:

(1) Anqing Furun, Liaocheng Furun, Danjiangkou Furun, Daye Furun, Fengqiu Furun, Linyi Furun, Shouxian Furun, Shulan Furun, Suixi Furun, Tuquan Furun and Xuzhou Furun are beneficially owned or controlled by Mr. Zhu, the Chairman and a substantial shareholder of the Company, and his associates. These companies are connected persons of the Company as defined in the Listing Rules.

(2) "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.

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 report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

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

Post Balance Sheet Events

Details of the post balance sheet events of the Group are set out in note 40 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 31 to 36 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 2011

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. Throughout the period from 1 January 2010 to 31 December 2010 (the "Review Year"), the Company complied 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 18 to 19 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, that, 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 written confirmations of independence from Gao Hui, Qiao Jun and Chen Jianguo, the independent non-executive Directors, and considered they have satisfied the independence criteria set out in Rule 3.13 of the Listing Rules.

Corporate Governance Report

In accordance with the Bye-laws of the Company, all directors appointed by the Board 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 and Appendix 23 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 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 attendance 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	2/2	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)*	4/4	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)*	4/4	N/A	N/A	N/A
Li Chenghua *(appointed on 8 January 2010)*	4/4	N/A	N/A	N/A
Sun Yanjun *(resigned on 8 January 2010)*	–*	N/A	N/A	N/A
Independent non-executive Directors				
Gao Hui	4/4	4/4	2/2	2/2
Qiao Jun *(appointed on 8 January 2010)*	4/4	N/A	1/1*	N/A
Chen Jianguo *(appointed on 8 January 2010)*	4/4	4/4	N/A	1/1*
Kang Woon *(resigned on 8 January 2010)*	–*	–*	1/1*	1/1*

* *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 for 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 to the Board on the succession planning for Directors and senior management of the Group

	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 and recommended the remuneration package of the Directors and senior management of the Group	• Reviewed and recommended 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 standards 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 2010 are as follows:

Services provided	**Fees** HK$'000
2010 Annual audit	5,472
Non-audit service	1,092
Total	6,564

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 properly managed, 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 37 to 38 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, the United Kingdom, Singapore, Japan, Taiwan and Macao and organised site visits for shareholders and institutional investors to its manufacturing facilities in China. Yurun Food also had dialogues 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.

Independent Auditor's Report

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

We have audited the consolidated financial statements of China Yurun Food Group Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 39 to 115, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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 2011

Consolidated Balance Sheet

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Property, plant and equipment	18	**8,037,446**	5,065,383
Investment properties	19	**215,862**	214,093
Lease prepayments	20	**2,159,309**	1,407,155
Goodwill	22	**90,054**	86,374
Interest in an associate	23	**2,466**	2,805
Interest in a jointly controlled entity	24	**23,204**	–
Non-current prepayments	25	**952,867**	936,738
Deferred tax assets	26	**20,455**	21,025
		11,501,663	7,733,573
Current assets			
Inventories	27	**1,268,316**	936,129
Other investments	28	**1,184**	6,870
Current portion of lease prepayments	20	**47,281**	30,722
Trade and other receivables	29	**1,189,686**	926,567
Income tax recoverable	12	**1,233**	378
Pledged deposits	29,31	**227,655**	758,759
Time deposits		**151,280**	76,817
Cash and cash equivalents	30	**5,972,385**	2,465,128
		8,859,020	5,201,370
Current liabilities			
Bank loans	31	**3,151,495**	3,108,093
Finance lease liabilities	32	**516**	474
Trade and other payables	33	**1,817,121**	1,084,750
Income tax payable	12	**29,559**	19,315
		4,998,691	4,212,632
Net current assets		**3,860,329**	988,738
Total assets less current liabilities		**15,361,992**	8,722,311

Consolidated Balance Sheet

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current liabilities			
Bank loans	31	**529,798**	24,361
Finance lease liabilities	32	**170,869**	164,414
Deferred tax liabilities	26	**178,827**	133,357
		879,494	322,132
NET ASSETS		**14,482,498**	8,400,179
Equity			
Share capital	35	**181,116**	167,322
Reserves	36	**14,255,593**	8,202,380
Total equity attributable to equity holders of the Company		**14,436,709**	8,369,702
Non-controlling interests		**45,789**	30,477
TOTAL EQUITY		**14,482,498**	8,400,179

Approved and authorised for issue by the Board of Directors on 29 March 2011.

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 47 to 115 are an integral part of these financial statements.

Balance Sheet
At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Non-current assets			
Investments in subsidiaries	21	**709,847**	708,150
Current assets			
Other receivables	29	**467**	369
Amounts due from subsidiaries		**7,430,387**	3,811,504
Cash and cash equivalents	30	**414,589**	174,569
		7,845,443	3,986,442
Current liabilities			
Other payables	33	**6,810**	6,260
Net current assets		**7,838,633**	3,980,182
Total assets less current liabilities		**8,548,480**	4,688,332
Non-current liabilities			
Bank loans	31	**350,504**	–
NET ASSETS		**8,197,976**	4,688,332
Equity			
Share capital	35	**181,116**	167,322
Reserves	36	**8,016,860**	4,521,010
TOTAL EQUITY		**8,197,976**	4,688,332

Approved and authorised for issue by the Board of Directors on 29 March 2011.

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 47 to 115 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Turnover	8	**21,472,747**	13,870,428
Cost of sales		**(18,375,204)**	(11,709,551)
Gross profit		**3,097,543**	2,160,877
Other operating income	9	**966,171**	624,641
Distribution expenses		**(626,710)**	(509,731)
Administrative and other operating expenses		**(463,080)**	(320,053)
Results from operating activities		**2,973,924**	1,955,734
Finance income		**121,544**	51,486
Finance costs		**(169,179)**	(115,890)
Net finance costs	10(a)	**(47,635)**	(64,404)
Share of loss of an associate (net of income tax)	23	**(447)**	(113)
Profit before income tax	10	**2,925,842**	1,891,217
Income tax expense	11	**(189,113)**	(142,573)
Profit for the year		**2,736,729**	1,748,644
Attributable to:			
Equity holders of the Company		**2,728,176**	1,745,288
Non-controlling interests		**8,553**	3,356
Profit for the year		**2,736,729**	1,748,644
Earnings per share			
Basic	17(a)	**$ 1.565**	$ 1.089
Diluted	17(b)	**$ 1.551**	$ 1.074

The notes on pages 47 to 115 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Profit for the year		**2,736,729**	1,748,644
Other comprehensive income for the year (after reclassification adjustments)	16		
Foreign currency translation differences for foreign operations		**438,973**	6,750
Available-for-sale financial assets			
– net movement in fair value recognised during the year		**(55)**	55
– reclassification adjustment for impairment loss		**–**	1,932
		438,918	8,737
Total comprehensive income for the year		**3,175,647**	1,757,381
Attributable to:			
Equity holders of the Company		**3,165,400**	1,753,958
Non-controlling interests		**10,247**	3,423
Total comprehensive income for the year		**3,175,647**	1,757,381

The notes on pages 47 to 115 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company										
		Share capital	Share premium	Capital surplus	Merger reserve	PRC statutory reserves	Fair value reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
		(Note 35)	(Note 36(b))	(Note 36(c))	(Note 36(d))	(Note 36(e))	(Note 36(f))	(Note 36(g))				
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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
Profit for the year		–	–	–	–	–	–	–	1,745,288	1,745,288	3,356	1,748,644
Total other comprehensive income for the year		–	–	–	–	–	1,987	6,683	–	8,670	67	8,737
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	35(a)	13,000	1,706,900	–	–	–	–	–	–	1,719,900	–	1,719,900
Share issue expenses		–	(45,173)	–	–	–	–	–	–	(45,173)	–	(45,173)
Capital contributions from non-controlling interests		–	–	–	–	–	–	–	–	–	6,915	6,915
Shares issued under share option scheme	35(a)	1,215	107,392	–	–	–	–	–	(17,938)	90,669	–	90,669
Share-based payments	34	–	–	–	–	–	–	–	9,042	9,042	–	9,042
Transfer to reserves		–	–	–	–	128,203	–	–	(128,203)	–	–	–
Dividends approved and paid during the year	36(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
At 1 January 2010		**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**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,728,176**	**2,728,176**	**8,553**	**2,736,729**
Total other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(55)**	**437,279**	**-**	**437,224**	**1,694**	**438,918**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(55)**	**437,279**	**2,728,176**	**3,165,400**	**10,247**	**3,175,647**
Issuance of new shares	35(a)	**13,700**	**3,545,500**	**-**	**-**	**-**	**-**	**-**	**-**	**3,559,200**	**-**	**3,559,200**
Share issue expenses		**-**	**(50,946)**	**-**	**-**	**-**	**-**	**-**	**-**	**(50,946)**	**-**	**(50,946)**
Capital contributions from non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,495**	**6,495**
Shares issued under share option scheme	35(a)	**94**	**8,277**	**-**	**-**	**-**	**-**	**-**	**(1,381)**	**6,990**	**-**	**6,990**
Share-based payments	34	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,687**	**3,687**	**-**	**3,687**
Transfer to reserves		**-**	**-**	**-**	**-**	**176,477**	**-**	**-**	**(176,477)**	**-**	**-**	**-**
Dividends approved and paid during the year	36(j)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(617,324)**	**(617,324)**	**(1,430)**	**(618,754)**
At 31 December 2010		**181,116**	**7,697,617**	**3,887**	**(112,202)**	**602,517**	**-**	**928,706**	**5,135,068**	**14,436,709**	**45,789**	**14,482,498**

The notes on pages 47 to 115 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Profit for the year		**2,736,729**	1,748,644
Adjustments for:			
Depreciation		**248,706**	152,875
Amortisation of lease prepayments		**38,309**	26,386
(Reversal of)/provision for impairment losses on trade and other receivables		**(8,779)**	2,323
Interest income		**(35,959)**	(45,265)
Finance costs		**150,824**	110,183
Share of loss of an associate		**447**	113
Loss/(gain) on disposal of property, plant and equipment		**5,290**	(14,950)
Recognition of negative goodwill		**(186,137)**	(119,270)
Equity-settled share-based payment transactions		**3,687**	9,042
Unrealised foreign exchange gain		**(47,174)**	(383)
Income tax expense		**189,113**	142,573
Net gain on sale of available-for-sale financial assets		**(116)**	(1,524)
Impairment loss on available-for-sale financial assets		**–**	1,932
Change in fair value of financial derivatives		**(26,817)**	3,775
Operating profit before change in working capital		**3,068,123**	2,016,454
Change in inventories		**(285,072)**	(231,601)
Change in trade and other receivables		**(186,245)**	(224,529)
Change in trade and other payables		**672,796**	175,856
Cash generated from operating activities		**3,269,602**	1,736,180
Finance costs paid		**(143,681)**	(106,537)
Income tax paid		**(139,570)**	(60,802)
Net cash from operating activities		**2,986,351**	1,568,841

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**2,394**	11,805
Proceeds from sale of held-to-maturity investments		**295,528**	297,389
Proceeds from sale of available-for-sale financial assets		**5,885**	8,332
Interest received		**28,882**	31,551
Capital contributions from non-controlling interests		**6,495**	6,915
Acquisition of property, plant and equipment		**(2,831,444)**	(1,649,116)
Payments for lease prepayments		**(615,379)**	(896,545)
Business acquisitions, net of cash acquired	7	**(9,159)**	(181,915)
Payment for investment in a jointly controlled entity		**(23,204)**	–
Acquisition of held-to-maturity investments		**(288,451)**	(283,675)
Acquisition of available-for-sale financial assets		**–**	(12,482)
Changes in time deposits		**(70,769)**	(76,749)
Net cash used in investing activities		**(3,499,222)**	(2,744,490)
Cash flows from financing activities			
Net proceeds from issuance of new shares		**3,515,244**	1,765,396
Proceeds from bank loans		**5,394,453**	4,443,661
Repayments of bank loans		**(4,975,199)**	(3,239,752)
Capital element of finance lease rentals paid		**(481)**	(453)
Interest element of finance lease rentals paid		**(6,164)**	(6,082)
Changes in pledged deposits		**548,977**	(159,356)
Dividends paid		**(618,754)**	(373,650)
Net cash generated from financing activities		**3,858,076**	2,429,764
Net increase in cash and cash equivalents		**3,345,205**	1,254,115
Cash and cash equivalents at 1 January		**2,465,128**	1,209,092
Effect of exchange rate fluctuations on cash held		**162,052**	1,921
Cash and cash equivalents at 31 December	30	**5,972,385**	2,465,128

The notes on pages 47 to 115 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 2010 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate and a jointly controlled entity. 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 2011.

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 ("HKD") 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 HKD, which is the Company's functional currency. All financial information presented in HKD 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

(i) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3, "Business combinations (2008)", in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

– the fair value of the consideration transferred; plus

– the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

– the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

2 Basis of Preparation (continued)

(e) Changes in accounting policies (continued)

(i) Accounting for business combinations (continued)

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

(ii) Distributions of non-cash assets to owners

From 1 January 2010, the Group has applied International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 17, "Distributions of non-cash assets to owners" in accounting for distributions of non-cash assets to owners. This new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets to owners at the fair value of the assets to be distributed. The carrying amount of the liability is remeasured at each reporting period and at the settlement date with any changes recognised in equity as adjustments to the amount of the distribution.

On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

(iii) Accounting for operating segments

As a result of the amendment to IFRS 8, "Operating segments", arising from the "Improvements to IFRSs (2009)" omnibus standard, the measure of total assets for each reportable segment is only required to be presented if it is regularly provided to the Group's chief operating decision maker ("CODM"). Segment assets of the Group are not reported to the Group's CODM regularly. As a result, reportable segment assets have not been presented in these financial statements.

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) Business combinations

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e) for further details.

3 Significant Accounting Policies (continued)

(a) Basis of consolidation (continued)

(ii) Subsidiaries and non-controlling 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.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling 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 non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see accounting policy (c)) or when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see accounting policy (a)(iii)).

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

(iii) Associates and jointly controlled entities

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. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

3 Significant Accounting Policies (continued)

(a) Basis of consolidation (continued)

(iii) Associates and jointly controlled entities (continued)

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an associate or a jointly controlled entity, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate or jointly controlled entity.

(iv) 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 operation, 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.

(v) 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 and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in the associate and the jointly controlled entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of 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.

3 Significant Accounting Policies (continued)

(b) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to HKD at exchange rates at the reporting date. The income and expenses of operations outside Hong Kong are translated to HKD at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the exchange reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(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 classifies non-derivative financial assets into the following categories: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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.

3 Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

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 cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

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 above categories of 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 debt instruments (see accounting policy (b)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities.

(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 consolidated balance sheet 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 classifies non-derivative financial liabilities into the other financial liabilities category. 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.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

3 Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(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.

(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 a component 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 component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3 Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is based on the cost of an asset 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. 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.

(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 arises upon the acquisition of subsidiaries. For the measurement of goodwill at initial recognition, see note 2(e)(i).

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, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the associate.

3 Significant Accounting Policies (continued)

(f) Investment property

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

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 20-30 years. Depreciation methods, useful lives and residual values are re-assessed at each financial year-end and adjusted if appropriate.

(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.

(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.

3 Significant Accounting Policies (continued)

(j) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss 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, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or 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.

Loans and receivables and held-to-maturity investment securities

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.

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by reclassifying the loss accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to 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.

3 Significant Accounting Policies (continued)

(j) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. 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 CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed 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 and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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 CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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 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 costs.

(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.

3 Significant Accounting Policies (continued)

(m) Revenue recognition (continued)

(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 and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. 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.

(iii) Rental income

Rental income from investment property 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.

(o) Finance income and costs

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

Finance costs 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 that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss 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.

3 Significant Accounting Policies (continued)

(o) Finance income and costs (continued)

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 as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(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 year in which they are incurred.

(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:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and

– 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.

3 Significant Accounting Policies (continued)

(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.

(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 CODM 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 that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly finance costs, head office expenses and income tax expenses.

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. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) 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 based on replacement cost. Depreciated replacement cost estimates reflect adjustment for physical deterioration as well as functional and economic obsolescence.

(b) Equity and debt securities

The fair value of equity securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

(c) 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. This fair value is determined for disclosure purposes or when acquired in a business combination.

(d) Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted 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 government bonds).

(e) 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.

(f) Investment property

The fair values determined for disclosure purposes, are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

4 Determination of Fair Values (continued)

(f) Investment property (continued)

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

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.

5 Financial Risk Management (continued)

(b) Credit risk (continued)

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

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will 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 and its obligations as and when they fall due.

(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

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.

5 Financial Risk Management (continued)

(e) Natural risk

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

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

(f) Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-controlling 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 2010 was 19.0% (2009: 20.9%).

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 Operating Segments

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 CODM, 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.

The Group's CODM reviews the results of the two operating segments regularly. The decisions made regarding resources allocation and performance assessment are mainly based on the segment results.

6 Operating Segments (continued)

(a) Segment results

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 to each reportable segment on the following bases:

– 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.

– Finance income, finance costs and share of loss of an associate are not allocated as segment expenses.

– The measure used for reporting segment profit is adjusted profit before interests, taxes and share of loss of an associate for the year.

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 2010 and 2009 is set out below.

	Chilled and frozen meat		**Processed meat products**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenues	**17,652,018**	10,581,888	**3,820,729**	3,288,540	**21,472,747**	13,870,428
Inter-segment revenue	**1,181,126**	1,163,898	**–**	–	**1,181,126**	1,163,898
Reportable segment revenue	**18,833,144**	11,745,786	**3,820,729**	3,288,540	**22,653,873**	15,034,326
Depreciation and amortisation	**(218,739)**	(116,308)	**(67,692)**	(62,662)	**(286,431)**	(178,970)
Government subsidies	**686,698**	410,342	**26,585**	15,251	**713,283**	425,593
Reportable segment profit	**2,323,534**	1,422,570	**690,194**	576,341	**3,013,728**	1,998,911
Income tax expenses	**(12,524)**	(61,963)	**(176,068)**	(80,200)	**(188,592)**	(142,163)

6 Operating Segments (continued)

(b) Reconciliations of reportable segment revenue and profit

	2010 $'000	2009 $'000
Revenue		
Total revenue from reportable segments	**22,653,873**	15,034,326
Elimination of inter-segment revenue	**(1,181,126)**	(1,163,898)
Consolidated revenue	**21,472,747**	13,870,428
Profit		
Reportable segment profit	**3,013,728**	1,998,911
Elimination of inter-segment profits	**(5,791)**	(8,378)
Reportable segment profit derived from the Group's external customers	**3,007,937**	1,990,533
Share of loss of an associate	**(447)**	(113)
Net finance costs	**(47,635)**	(64,404)
Income tax expense	**(189,113)**	(142,573)
Unallocated head office and corporate expenses	**(34,013)**	(34,799)
Consolidated profit for the year	**2,736,729**	1,748,644

7 Business Combinations

(a) Shandong Lushen Food Company Limited* ("Shandong Lushen")

On 24 March 2010, 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 Shandong Lushen from Shandong Province Juye Local County Government (山東省巨野縣人民政府) at a cash consideration of $9,136,000. Details of Shandong Lushen are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 31 December 2010 $'000	Principal activities
Shangdong Lushen 山東魯神食品有限公司	38,920	Slaughtering, production and sales of chilled and frozen meat

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

7 Business Combinations (continued)

(a) Shandong Lushen Food Company Limited* ("Shandong Lushen") (continued)

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)	46,570	36,204	10,366
Other non-current assets	2,270	2,270	–
Current assets	28	28	–
Net identifiable assets acquired	48,868	38,502	10,366
Less: Consideration	(9,136)		
Negative goodwill arising on acquisition (note 9)	39,732		

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2010. Shandong Lushen had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill.

(b) Henan Fuxin Muslim Meat Industry Company Limited* ("Henan Fuxin")

On 14 May 2010, the Group entered into a share transfer agreement with an individual through the Henan Province Nanle Local County Government (河南省南樂縣人民政府) to acquire the entire equity interest in Henan Fuxin at a cash consideration of $11,000. Details of Henan Fuxin are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 31 December 2010 $'000	Principal activities
Henan Fuxin 河南福鑫清真肉業有限公司	93,337	Slaughtering, production and sales of chilled and frozen meat

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

7 Business Combinations (continued)

(b) Henan Fuxin Muslim Meat Industry Company Limited* ("Henan Fuxin") (continued)

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)	88,296	46,288	42,008
Other non-current assets	5,051	5,051	–
Current assets	221	221	–
Net identifiable assets acquired	93,568	51,560	42,008
Less: Consideration	(11)		
Negative goodwill arising on acquisition (note 9)	93,557		

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2010. Henan Fuxin had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill.

(c) Fuyu Linyuan Food Company Limited* ("Fuyu Linyuan")

On 17 November 2010, 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 Fuyu Linyuan from Heilongjiang Province Fuyu Local County Government (黑龍江省富裕縣人民政府), at a cash consideration of $12,000. Details of Fuyu Linyuan are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 31 December 2010 $'000	Principal activities
Fuyu Linyuan 富裕縣林源食品公司	52,839	Slaughtering, production and sales of chilled and frozen meat

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

7 Business Combinations (continued)

(c) Fuyu Linyuan Food Company Limited* ("Fuyu Linyuan") (continued)

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)	45,878	37,559	8,319
Other non-current assets	6,982	6,982	–
Net identifiable assets acquired	52,860	44,541	8,319
Less: Consideration	(12)		
Negative goodwill arising on acquisition (note 9)	52,848		

The consolidated revenue and consolidated profit for the year would not be significantly different if the acquisition had occurred on 1 January 2010. Fuyu Linyuan had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill.

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 rebates.

9 Other Operating Income

	Note	2010 $'000	2009 $'000
Government subsidies		**713,283**	425,593
Recognition of negative goodwill arising on business combinations	7	**186,137**	119,270
Rental income		**27,032**	22,858
Sales of scrap		**4,177**	3,115
Sundry income		**35,542**	53,805
		966,171	624,641

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):

(a) Net finance costs

	2010 $'000	2009 $'000
Interest on bank loans wholly repayable within five years	**158,958**	101,743
Less: Interest expense capitalised into properties under development*	**(18,355)**	(12,634)
	140,603	89,109
Bank charges	**4,057**	14,992
Interest on lease obligations	**6,164**	6,082
Net foreign exchange gain	**(40,297)**	(4,697)
Interest income on held-to-maturity investments	**(7,077)**	(13,714)
Interest income from bank deposits	**(28,882)**	(31,551)
Net gain on sale of available-for-sale financial assets	**(116)**	(1,524)
Impairment loss on available-for-sale financial assets	**–**	1,932
Change in fair value of financial derivatives	**(26,817)**	3,775
	47,635	64,404

* The borrowing costs have been capitalised at a rate of 5.01% per annum (2009: 4.80%).

(b) Personnel expenses

	2010 $'000	2009 $'000
Salaries, wages and other benefits	**565,184**	379,624
Contributions to defined contribution pension schemes	**29,331**	24,829
Equity-settled share-based payment transactions	**3,687**	9,042
	598,202	413,495

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% (2009: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2010.

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)

(c) Other items

	2010 $'000	2009 $'000
Cost of inventories#	**18,375,204**	11,709,551
Impairment losses on trade and other receivables	**759**	4,376
Reversal of impairment losses on trade and other receivables	**(9,538)**	(2,053)
Depreciation	**248,706**	152,875
Loss/(gain) on disposal of property, plant and equipment	**5,290**	(14,950)
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**12,267**	8,971
– contingent rent	**5,646**	5,032
Amortisation of lease prepayments	**38,309**	26,386
Research and development expenses (other than amortisation costs)	**14,027**	10,911
Auditors' remuneration		
– audit services	**5,472**	5,216
– other services	**1,092**	1,013

Cost of inventories includes $469,097,000 (2009: $302,886,000) 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	2010 $'000	2009 $'000
Current tax expense			
Current year	12	**150,092**	68,888
(Over)/under-provision in respect of prior years	12	**(2,154)**	7,604
		147,938	76,492
Deferred tax expense			
Origination and reversal of temporary differences	26(b)	**41,175**	66,081
Income tax expense in the consolidated income statement		**189,113**	142,573

11 Income Tax Expense (continued)

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

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2010 and 2009.

(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 years ended 31 December 2010 and 2009, 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 2010 and 2009.

(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.

(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.

As at 31 December 2010, temporary differences relating to the undistributed profits of subsidiaries amounted to $4,631,484,000 (31 December 2009: $2,647,443,000). Deferred tax liabilities of $54,118,000 (31 December 2009: $Nil) in respect of the undistributed profits of $1,082,365,000 (31 December 2009: $Nil) were not recognised as at 31 December 2010 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not 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.

11 Income Tax Expense (continued)

Reconciliation of effective tax rate

	2010 $'000	2010 %	2009 $'000	2009 %
Profit before income tax	**2,925,842**		1,891,217	
Income tax using the PRC enterprise income tax rate of 25% (2009: 25%)	**731,461**	**25.0**	472,804	25.0
Effect of tax rate differential	**9,282**	**0.3**	9,994	0.5
Non-taxable income	**(243,223)**	**(8.3)**	(138,826)	(7.4)
Non-deductible expenses	**41,567**	**1.4**	22,037	1.2
(Over)/under-provision in respect of prior years	**(2,154)**	**(0.1)**	7,604	0.4
Recognition of deferred tax liabilities of retained earnings of subsidiaries and interest payment from PRC subsidiaries	**39,751**	**1.4**	76,176	4.0
Effect of tax losses not recognised	**21**	**0.0**	19	0.0
Effect of tax concessions	**(387,592)**	**(13.2)**	(307,235)	(16.2)
Income tax expense	**189,113**	**6.5**	142,573	7.5

12 Income Tax Recoverable/(Payables)

Current taxation in the consolidated balance sheet represents:

	The Group 2010 $'000	2009 $'000
At beginning of the year	**(18,937)**	(3,230)
Provision for PRC enterprise income tax for the year	**(150,092)**	(68,888)
Over/(under)-provision in respect of prior years	**2,154**	(7,604)
PRC enterprise income tax paid	**139,570**	60,802
Effect of movements in exchange rates	**(1,021)**	(17)
At end of the year	**(28,326)**	(18,937)
Represented by:		
Income tax recoverable	**1,233**	378
Income tax payable	**(29,559)**	(19,315)
	(28,326)	(18,937)

13 Directors' Remuneration

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

	2010						
	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	–	2,495	42	–	2,537	–	2,537
Zhu Yiliang	–	899	42	–	941	650	1,591
Feng Kuande	–	577	28	–	605	650	1,255
Ge Yuqi	–	805	42	–	847	650	1,497
Yu Zhangli (appointed on 8 January 2010)	–	777	20	–	797	39	836
Non-executive directors							
Jiao Shuge (alias Jiao Zhen)	–	–	–	–	–	–	–
Wang Kaitian (appointed on 8 January 2010)	113	–	–	–	113	–	113
Li Chenghua (appointed on 8 January 2010)	–	–	–	–	–	–	–
Sun Yanjun (resigned on 8 January 2010)	–	–	–	–	–	–	–
Independent non-executive directors							
Gao Hui	180	–	–	–	180	–	180
Qiao Jun (appointed on 8 January 2010)	111	–	–	–	111	–	111
Chen Jianguo (appointed on 8 January 2010)	111	–	–	–	111	–	111
Kang Woon (resigned on 8 January 2010)	7	–	–	–	7	–	7
Total	522	5,553	174	–	6,249	1,989	8,238

13 Directors' Remuneration (continued)

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

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	–	–	–	–	–	–	–
Independent non-executive directors							
Gao Hui	180	–	–	–	180	–	180
Zheng Xueyi (passed away on 15 October 2009)	142	–	–	–	142	–	142
Kang Woon	180	–	–	–	180	–	180
Total	502	3,716	139	–	4,357	5,356	9,713

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 34.

Feng Kuande has agreed to waive part of his director emoluments under the existing service agreement for the year ended 31 December 2010.

Li Chenghua has agreed to waive all of his director emoluments under the existing service agreement for the year ended 31 December 2010.

14 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2009: four) are directors whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining two (2009: one) individuals are as follows:

	2010 $'000	2009 $'000
Salaries and other emoluments	**7,345**	2,723
Contributions to retirement benefit schemes	**24**	12
Share-based payments	**650**	1,150
	8,019	3,885

The emoluments of the two (2009: one) individuals with the highest emoluments are within the following bands:

$	**2010 Number of individuals**	2009 Number of individuals
3,500,001 – 4,000,000	**1**	1
4,000,001 – 4,500,000	**1**	–

15 Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of $608,037,000 (2009: $264,985,000) 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 2010 and 2009.

17 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity holders of the Company for the year of $2,728,176,000 (2009: $1,745,288,000) and the weighted average number of 1,743,531,000 (2009: 1,603,166,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2010 '000	2009 '000
Issued ordinary shares at 1 January	**1,673,220**	1,531,066
Effect of new shares issued (note 35)	**70,311**	72,100
Weighted average number of ordinary shares	**1,743,531**	1,603,166

17 Earnings per Share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity holders of the Company for the year of $2,728,176,000 (2009: $1,745,288,000) and the weighted average number of 1,758,691,000 (2009: 1,624,900,000) shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2010	2009
	’000	’000
Weighted average number of ordinary shares	**1,743,531**	1,603,166
Effect of deemed issue of shares under the Company’s share option scheme (note 35)	**15,160**	21,734
Weighted average number of ordinary shares (diluted)	**1,758,691**	1,624,900

18 Property, Plant and Equipment

The Group

	Properties	**Machinery and equipment**	**Motor vehicles**	**Furniture and fixtures**	**Construction in progress**	**Total**
	$’000	$’000	$’000	$’000	$’000	$’000
Cost:						
At 1 January 2009	1,582,374	900,019	65,414	59,163	515,681	3,122,651
Acquisitions through business combinations	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
At 1 January 2010	**3,629,134**	**1,591,433**	**70,282**	**67,545**	**341,309**	**5,699,703**
Acquisitions through business combinations (note 7)	**125,041**	**55,703**	**–**	**–**	**–**	**180,744**
Other acquisitions	**618,155**	**347,424**	**14,972**	**24,757**	**1,753,167**	**2,758,475**
Transfers	**148,504**	**70,050**	**–**	**51**	**(218,605)**	**–**
Disposals	**(1,338)**	**(7,283)**	**(6,204)**	**(438)**	**–**	**(15,263)**
Effect of movements in exchange rates	**177,061**	**79,608**	**3,136**	**3,449**	**51,811**	**315,065**
At 31 December 2010	**4,696,557**	**2,136,935**	**82,186**	**95,364**	**1,927,682**	**8,938,724**

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 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
At 1 January 2010	**293,842**	**282,005**	**26,869**	**31,604**	**–**	**634,320**
Depreciation charge for the year	**115,695**	**107,183**	**8,106**	**10,599**	**–**	**241,583**
Disposals	**(172)**	**(2,229)**	**(4,894)**	**(284)**	**–**	**(7,579)**
Effect of movements in exchange rates	**15,466**	**14,690**	**1,212**	**1,586**	**–**	**32,954**
At 31 December 2010	**424,831**	**401,649**	**31,293**	**43,505**	**–**	**901,278**
Carrying amounts:						
At 31 December 2010	**4,271,726**	**1,735,286**	**50,893**	**51,859**	**1,927,682**	**8,037,446**
At 31 December 2009	3,335,292	1,309,428	43,413	35,941	341,309	5,065,383

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of $2,139,978,000 (2009: $1,805,639,000) at 31 December 2010 are yet to be obtained. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the properties, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2010.

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 at 31 December 2009, are restricted from disposal unless prior approval has been obtained from the respective local government authorities. The respective investment agreements expired during the year.

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. 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 2010, the carrying amount of leased property, plant and equipment was $131,032,000 (2009: $132,725,000).

Security

At 31 December 2010, certain properties with a carrying amount of $44,763,000 (2009: $44,358,000) were pledged against bank loans (see note 31).

19 Investment Properties

	The Group	
	2010	2009
	$'000	$'000
Cost:		
At 1 January	**230,794**	230,510
Effect of movements in exchange rates	**9,785**	284
At 31 December	**240,579**	230,794
Accumulated depreciation:		
At 1 January	**16,701**	9,679
Charge for the year	**7,123**	7,004
Effect of movements in exchange rates	**893**	18
At 31 December	**24,717**	16,701
Carrying amounts:		
At 31 December	**215,862**	214,093

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 2010 was approximately $313,633,000 (2009: $286,957,000). 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 are restricted from disposal unless prior approval has been obtained from the respective local government authorities. The respective investment agreements expired during the year.

At 31 December 2010, land use rights with a carrying amount of $31,953,000 (2009: $31,329,000) were pledged against bank loans (see note 31).

21 Investments in Subsidiaries

	The Company	
	2010	2009
	$'000	$'000
Unlisted shares, at cost	**709,847**	708,150

Particulars of principal subsidiaries are set out in Appendix 1 on pages 113 to 115.

22 Goodwill

	The Group	
	2010	2009
	$'000	$'000
At 1 January	**86,374**	86,268
Effect of movements in exchange rates	**3,680**	106
At 31 December	**90,054**	86,374

22 Goodwill (continued)

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	
	2010	2009
	%	%
Gross margin	**9**	9
Growth rate	**15**	15
Discount rate	**17**	17

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 Interest in an Associate

	The Group	
	2010	2009
	$'000	$'000
Share of net assets	**2,466**	2,805

23 Interest in an Associate (continued)

Details of the associate at 31 December 2010 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 $'000	Liabilities $'000	Equity $'000	Revenue $'000	Loss $'000
2010					
100%	**13,032**	**3,169**	**9,863**	**19,790**	**(1,788)**
Group's effective interest	**3,258**	**792**	**2,466**	**4,948**	**(447)**
2009					
100%	16,215	4,993	11,222	17,158	(451)
Group's effective interest	4,053	1,248	2,805	4,289	(113)

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

24 Interest in a Jointly Controlled Entity

	The Group	
	2010 **$'000**	2009 $'000
Share of net assets	**23,204**	–

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(Expressed in Hong Kong dollars)

24 Interest in a Jointly Controlled Entity (continued)

Details of the jointly controlled entity are as follows:

Name of jointly controlled entity	Place of establishment and operation	Registered capital	Attributable equity interest indirectly held by the Group	Voting power	Principal activities
Hubei Runhong Biological Technology Co., Ltd.* ("Hubei Runhong") 湖北潤紅生物科技有限公司	PRC	RMB40,000,000	49%	40%	Production and sales of pharmaceutical products

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

Note: Pursuant to the Articles of Association of Hubei Runhong, all decisions should be passed by at least two-third of the number of directors. The Group is able to exercise 40% voting rights in the board of directors and the remaining voting rights are held by another party. Accordingly, no single party is able to control Hubei Runhong.

Summary financial information on jointly controlled entity – Group's effective interest:

	The Group	
	2010	2009
	$'000	$'000
Non-current assets	**–**	–
Current assets	**23,204**	–
Non-current liabilities	**–**	–
Current liabilities	**–**	–
Net assets	**23,204**	–
Income	**–**	–
Expenses	**–**	–
Profit for the year	**–**	–

The jointly controlled entity established in the PRC is a domestic limited liability company.

25 Non-current Prepayments

	The Group 2010 $'000	2009 $'000
Prepayments for acquisitions of land use rights	**793,052**	857,767
Prepayments for acquisitions of property, plant and equipment	**159,815**	78,971
	952,867	936,738

26 Deferred Tax Assets and Liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2010 are attributable to the following:

The Group

	Assets		Liabilities		Net	
	2010 **$'000**	2009 $'000	**2010** **$'000**	2009 $'000	**2010** **$'000**	2009 $'000
Property, plant and equipment	**20,369**	18,924	**–**	–	**20,369**	18,924
Impairment loss on trade and other receivables	**86**	2,101	**–**	–	**86**	2,101
Withholding tax for interest payment from PRC subsidiaries	**–**	–	**(1,371)**	(849)	**(1,371)**	(849)
Withholding tax for dividends from PRC subsidiaries	**–**	–	**(177,456)**	(132,508)	**(177,456)**	(132,508)
Total deferred tax assets/(liabilities)	**20,455**	21,025	**(178,827)**	(133,357)	**(158,372)**	(112,332)

26 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 2009 $'000	Recognised in income $'000	Exchange difference $'000	At 31 December 2009 $'000	**Recognised in income $'000**	**Exchange difference $'000**	**At 31 December 2010 $'000**
Property, plant and equipment	9,182	9,722	20	18,924	**626**	**819**	**20,369**
Impairment loss on trade and other receivables	1,726	373	2	2,101	**(2,050)**	**35**	**86**
Withholding tax for interest payment from PRC subsidiaries	(1,106)	257	–	(849)	**(522)**	**–**	**(1,371)**
Withholding tax for dividends from PRC subsidiaries	(55,939)	(76,433)	(136)	(132,508)	**(39,229)**	**(5,719)**	**(177,456)**
Total	(46,137)	(66,081)	(114)	(112,332)	**(41,175)**	**(4,865)**	**(158,372)**

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of $995,000 (2009: $870,000) 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.

27 Inventories

	The Group 2010 $'000	2009 $'000
Raw materials	**215,771**	161,514
Work in progress	**112,540**	62,854
Finished goods	**940,005**	711,761
	1,268,316	936,129

28 Other Investments

	The Group	
	2010	2009
	$'000	$'000
Available-for-sale financial assets, unlisted	**1,184**	6,870

29 Trade and Other Receivables

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade receivables (note 29(a))	**569,272**	575,682	**–**	–
Bills receivable	**27,596**	–	**–**	–
Value-added tax recoverable	**414,354**	275,188	**–**	–
Deposits and prepayments	**56,905**	32,462	**467**	369
Derivative financial instruments	**23,576**	–	**–**	–
Others	**97,983**	43,235	**–**	–
	1,189,686	926,567	**467**	369

All of the trade and other receivables are expected to be recovered within one year.

At 31 December 2010, the derivative financial instruments were secured by pledged deposits denominated in RMB amounting to $66,651,000.

The Group's exposure to credit and currency risk related to trade and other receivables are disclosed in note 37.

(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	
	2010	2009
	$'000	$'000
Within 30 days	**391,064**	296,053
31 days to 90 days	**105,249**	130,388
91 days to 180 days	**72,286**	148,144
Over 180 days	**673**	1,097
	569,272	575,682

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

29 Trade and Other Receivables (continued)

(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	
	2010	2009
	$'000	$'000
At 1 January	**15,065**	12,725
Impairment loss recognised	**759**	4,376
Reversal of impairment loss on trade debtors	**(9,538)**	(2,053)
Exchange difference	**410**	17
At 31 December	**6,696**	15,065

At 31 December 2010, the Group's trade debtors of $6,696,000 (2009: $15,065,000) 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 $6,696,000 (2009: $15,065,000) were recognised. The Group does not hold any collateral over these balances.

(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	
	2010	2009
	$'000	$'000
Neither past due nor impaired	**511,552**	504,083
Less than 1 month past due	**48,836**	56,722
1 to 3 months past due	**5,880**	9,454
Over 3 months past due	**3,004**	5,423
	57,720	71,599
	569,272	575,682

29 Trade and Other Receivables (continued)

(c) Trade debtors that are not impaired (continued)

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.

30 Cash and Cash Equivalents

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents in the cash flow statement	**5,972,385**	2,465,128	**414,589**	174,569

The effective interest rate on call deposits in 2010 was 2.25% (2009: 2.25%).

31 Bank Loans

The bank loans are repayable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Bank loans				
– Within one year	**2,774,155**	2,247,397	**–**	–
– After one but within two years	**60,909**	–	**–**	–
– After two but within five years	**468,889**	24,361	**350,504**	–
Proceeds from discounted bills				
– Within one year	**377,340**	860,696	**–**	–
Total loans	**3,681,293**	3,132,454	**350,504**	–
Less: Loans due within one year classified as current liabilities	**(3,151,495)**	(3,108,093)	**–**	–
Non-current loans	**529,798**	24,361	**350,504**	–

31 Bank Loans (continued)

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Terms				
Unsecured bank loans denominated in RMB				
– Variable interest rate at prevailing market rate	**899,728**	232,819	**–**	–
– Fixed interest rate at 4.78% to 5.56% (2009: 4.78% to 5.84%)	**1,972,852**	1,581,765	**–**	–
Unsecured bank loans denominated in HKD				
– Floating rate at Hong Kong Interbank Offered Rate + 1.70% (note (i))	**350,504**	–	**350,504**	–
Secured bank loans denominated in RMB				
– Variable interest rate at prevailing market rate (note (ii))	**80,869**	77,580	**–**	–
Secured bank loans denominated in USD				
– Fixed interest rate at 0.98% to 1.23% (note (iii))	**–**	379,594	**–**	–
Proceeds from discounted bills denominated in RMB (note (iv))	**377,340**	860,696	**–**	–
	3,681,293	3,132,454	**350,504**	–

Notes:

(i) Unsecured bank loan facilities amounting to $500,000,000 was made available to the Group in 2010. The facilities were utilised to the extent of $350,504,000 (2009: $Nil) as at 31 December 2010. 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. 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 2010, none of the covenants relating drawn down facilities had been breached.

(ii) At 31 December 2010, the secured bank loans were secured by certain properties and land use rights with carrying amount of $44,763,000 (2009: $44,358,000) and $31,953,000 (2009: $31,329,000) respectively.

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

(iv) At 31 December 2010, intragroup bills payable totalling $378,833,000 (2009: $863,132,000) were secured by pledged deposits amounting to $161,004,000 (2009: $380,460,000). The corresponding intragroup bills receivable totalling $378,833,000 (2009: $863,132,000) were discounted with recourse. The proceeds from discounting are stated in the consolidated balance sheet as secured bank loans.

32 Finance Lease Liabilities

Finance lease liabilities are payable as follows:

The Group

	2010 Total minimum lease payments $'000	2010 Interest expense relating to future periods $'000	2010 Present value of the minimum lease payments $'000	2009 Total minimum lease payments $'000	2009 Interest expense relating to future periods $'000	2009 Present value of the minimum lease payments $'000
Within one year	**6,818**	**6,302**	**516**	6,540	6,066	474
After one but within two years	**6,818**	**6,278**	**540**	6,540	6,046	494
After two but within five years	**25,755**	**18,681**	**7,074**	24,785	17,996	6,789
More than five years	**247,929**	**84,674**	**163,255**	244,309	87,178	157,131
	280,502	**109,633**	**170,869**	275,634	111,220	164,414
Total finance lease obligations	**287,320**	**115,935**	**171,385**	282,174	117,286	164,888

33 Trade and Other Payables

	The Group 2010 $'000	The Group 2009 $'000	The Company 2010 $'000	The Company 2009 $'000
Trade payables	**636,899**	439,748	**–**	–
Receipts in advance	**216,885**	110,616	**–**	–
Deposits from customers	**75,078**	45,223	**–**	–
Salary and welfare payables	**119,554**	78,402	**–**	–
Value-added tax payable	**932**	1,013	**–**	–
Amounts due to a related company (note 39(c))	**–**	4,998	**–**	–
Derivative financial instruments	**–**	3,779	**–**	–
Payables for acquisitions of property, plant and equipment	**273,766**	85,039	**–**	–
Other payables and accruals	**494,007**	315,932	**6,810**	6,260
	1,817,121	1,084,750	**6,810**	6,260

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.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 37.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

33 Trade and Other Payables (continued)

Trade payables

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

	The Group	
	2010	2009
	$'000	$'000
Within 30 days	**560,327**	343,132
31 days to 90 days	**50,414**	61,434
91 days to 180 days	**12,610**	13,402
Over 180 days	**13,548**	21,780
	636,899	439,748

34 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 2010 and 2009.

(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:

	2010		2009	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at 1 January	**$7.46**	**21,970**	$7.46	34,237
Exercised during the year	**$7.46**	**(937)**	$7.46	(12,154)
Lapsed during the year	**$7.46**	**–**	$7.46	(113)
Outstanding at 31 December	**$7.46**	**21,033**	$7.46	21,970
Exercisable at 31 December	**$7.46**	**16,633**	$7.46	2,870

The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was $25.55 (2009: $13.46).

The options outstanding at 31 December 2010 had an exercise price of $7.46 and a remaining life of 5.86 years.

35 Share Capital

(a) Authorised and issued share capital

	2010		2009	
	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	**1,673,220**	**167,322**	1,531,066	153,107
Issued for cash (note)	**137,000**	**13,700**	130,000	13,000
Exercise of share options (note 34(b))	**937**	**94**	12,154	1,215
At 31 December	**1,811,157**	**181,116**	1,673,220	167,322

Note: On 22 April 2010 and 3 November 2010, 90,000,000 and 47,000,000 new ordinary shares of the Company at a par value of $0.10 each were issued at a price of $23.88 and $30.00 per share respectively.

On 28 July 2009, 130,000,000 new ordinary shares of the Company at a par value of $0.10 were issued at a price of $13.23 per share.

During the year ended 31 December 2010, options were exercised to subscribe for 937,000 (2009: 12,154,000) new ordinary shares in the Company at a consideration of $6,990,000 (2009: $90,669,000) of which $94,000 (2009: $1,215,000) was credited to share capital and the balance of $6,896,000 (2009: $89,454,000) was credited to the share premium account. The fair value of the options exercised of $1,381,000 (2009: $17,938,000) has been transferred from retained earnings to the share premium.

35 Share Capital (continued)

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

Exercise period	Exercise Price	2010 Number '000	2009 Number '000
After the result announcement for the year ended 31 December 2007 to 9 November 2016	$7.46	**850**	900
After the result announcement for the year ended 31 December 2008 to 9 November 2016	$7.46	**1,955**	1,970
After the result announcement for the year ended 31 December 2009 to 9 November 2016	$7.46	**8,678**	9,550
From 1 July 2010 to 9 November 2016 (note)	$7.46	**5,150**	–
After the result announcement for the year ended 31 December 2010 to 9 November 2016	$7.46	**4,400**	9,550
	$7.46	**21,033**	21,970

Note: Pursuant to a Board resolution dated 30 June 2010, to reward for the performance of certain staff members, 5,150,000 options of the fourth tranch which should be vested after the results announcement for the year ended 31 December 2010 were vested earlier on 1 July 2010.

Further details of these options are set out in note 34 to these financial statements.

36 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 36(b))** $'000	**Contributed surplus (note 36(h))** $'000	**Retained earnings** $'000	**Total** $'000
At 1 January 2009		2,425,667	297,480	146,305	2,869,452
Shares issued for cash	35(a)	1,706,900	–	–	1,706,900
Share issue expense		(45,173)	–	–	(45,173)
Shares issued under the share option scheme	35(a)	107,392	–	(17,938)	89,454
Profit for the year		–	–	264,985	264,985
Share-based payments	34	–	–	9,042	9,042
Dividends approved and paid during the year	36(j)	–	–	(373,650)	(373,650)
At 31 December 2009		4,194,786	297,480	28,744	4,521,010
At 1 January 2010		**4,194,786**	**297,480**	**28,744**	**4,521,010**
Shares issued for cash	35(a)	**3,545,500**	**–**	**–**	**3,545,500**
Share issue expense		**(50,946)**	**–**	**–**	**(50,946)**
Shares issued under the share option scheme	35(a)	**8,277**	**–**	**(1,381)**	**6,896**
Profit for the year		**–**	**–**	**608,037**	**608,037**
Share-based payments	34	**–**	**–**	**3,687**	**3,687**
Dividends approved and paid during the year	36(j)	**–**	**–**	**(617,324)**	**(617,324)**
At 31 December 2010		**7,697,617**	**297,480**	**21,763**	**8,016,860**

(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.

36 Reserves and Dividends (continued)

(d) Merger reserve

The merger reserve of the Group represents the difference between the net carrying value of the Predecessor Entities and non-controlling 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.

(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.

36 Reserves and Dividends (continued)

(i) Distributable reserves

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

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

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

At 31 December 2010, the aggregate amount of reserves available for distribution to equity holders of the Company was $8,016,860,000 (2009: $4,521,010,000).

(j) Dividends

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

	2010 **$'000**	2009 $'000
Interim dividend declared and paid of $0.20 (2009: $0.15) per share	**352,831**	250,870
Final dividend proposed after the balance sheet date of $0.20 (2009: $0.15) per share	**362,231**	250,983
	715,062	501,853

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

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

	2010 **$'000**	2009 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.15 (2009: $0.08) per share	**264,493**	122,780

In respect of the dividends attributable to the year ended 31 December 2009, 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.

37 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 29.

(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 2010

	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	3,681,293	3,783,214	1,995,203	1,194,870	77,501	515,640	–
Finance lease liabilities	171,385	287,320	3,409	3,409	6,818	25,754	247,930
Trade and other payables	1,817,121	1,817,121	1,817,121	–	–	–	–
Derivative financial liabilities:							
Forward exchange contracts							
– Outflow	(403,511)	(403,511)	(95,779)	–	(307,732)	–	–
– Inflow	427,087	427,087	103,406	–	323,681	–	–
	5,693,375	5,911,231	3,823,360	1,198,279	100,268	541,394	247,930

37 Financial Risk Management and Fair Values (continued)

(b) Liquidity risk (continued)

The Group (continued)

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

The Company

31 December 2010

	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	**350,504**	**374,673**	**3,458**	**3,458**	**6,916**	**360,841**
Other payables	**6,810**	**6,810**	**6,810**	**–**	**–**	**–**

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	–	–	–

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

37 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 31.

Except for the variable-value borrowings, the financial assets and liabilities as at 31 December 2010 and 2009 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 $20,469,000 (2009: $1,609,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

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			
	2010		2009		**2010**		2009	
	Euro	**USD**	Euro	USD	**Euro**	**USD**	Euro	USD
	$'000	**$'000**	$'000	$'000	**$'000**	**$'000**	$'000	$'000
Current assets	**207**	**789,626**	–	107,894	**–**	**2,896**	–	2,930
Current liabilities	**–**	**–**	–	(379,594)	**–**	**–**	–	–
	207	**789,626**	–	(271,700)	**–**	**2,896**	–	2,930

As HKD is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and USD to be insignificant.

37 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:

	2010		2009	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Long term bank loans	**529,798**	**529,798**	24,361	24,361
Finance lease liabilities	**171,385**	**125,717**	164,888	113,215

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:

	2010	2009
Long term bank loans	**1.97% – 5.35%**	5.76%
Finance lease liabilities	**5.29%**	5.69%

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

37 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 2010				
Derivative financial assets	**–**	**23,576**	**–**	**23,576**
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.

38 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:

	2010 **$'000**	2009 $'000
Within 1 year	**3,081**	382
After 1 year but within 5 years	**3,450**	1,458
Over 5 years	**3,420**	3,646
	9,951	5,486

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

38 Commitments (continued)

(b) Capital commitments

Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	2010 $'000	2009 $'000
Contracted for	**1,614,410**	152,422
Authorised but not contracted for	**1,191,176**	236,020
	2,805,586	388,442

39 Related Party Transactions

During the years ended 31 December 2010 and 2009, transactions with the following parties are considered as related party transactions.

Name of party

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

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

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

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

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

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

Fengqiu Furun Poultry Product Co., Ltd. ("Fengqiu Furun") (notes (i) & (iv))
封丘福潤禽業食品有限公司

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

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

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

39 Related Party Transactions (continued)

Name of party (continued)

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

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

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

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

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

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

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

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

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

Suixi Furun Poultry Product Co., Ltd. ("Suixi Furun") (notes (i) & (iv))
濉溪福潤禽業食品有限公司

Tuquan Furun Poultry Product Co., Ltd. ("Tuquan Furun") (notes (i) & (iv))
突泉縣福潤禽業有限公司

Willie Holdings Limited ("Willie Holdings") (notes (i))

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

Itoham (note (ii))

39 Related Party Transactions (continued)

Notes:

(i) 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) Zhu Yicai was the beneficial owner of Anhui Xuerun. He disposed the equity interest in Anhui Xuerun during the year ended 31 December 2009.

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

(a) Significant related party transactions

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

	2010 $'000	2009 $'000
Sales of meat and by-products		
Anhui Xuerun	–	239
Sales of raw materials		
Anhui Xuerun*	–	1,423
Itoham	15	988
Total	15	2,411
Purchases of raw materials		
Anqing Furun	6,411	8,088
Liaocheng Furun	44,644	19,354
Xuzhou Furun	23,931	983
Shouxian Furun	5,726	859
Danjiangkou Furun	7,628	4,409
Daye Furun	6,566	1,089
Linyi Furun	36,945	3,017
Fengqiu Furun	5,912	–
Tuquan Furun	2,325	–
Shulan Furun	13,309	–
Suixi Furun	18,305	–
Total	171,702	37,799
Purchases of finished goods		
Anhui Xuerun**	–	19,128
Itoham	3,320	3,205
Total	3,320	22,333

39 Related Party Transactions (continued)

(a) Significant related party transactions (continued)

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

* The cost of sales of raw materials to Anhui Xuerun and the deemed distribution fee to Anhui Xuerun amounted to $1,382,000 and $41,000 respectively during the year ended 31 December 2009.

** The related sales of finished goods purchased from Anhui Xuerun and the deemed distribution fee from Anhui Xuerun amounted to $19,720,000 and $592,000 respectively.

(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 32) and operating leases respectively. The rental for the year ended 31 December 2010 amounted to $6,456,000 (2009: $6,916,000).

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

The Group shared office premises with Willie Holdings during the year ended 31 December 2010. The rental paid or payable to Willie Holdings and certain expenses borne by the Company amounted to $2,487,000 (2009: $2,506,000) for the year ended 31 December 2010.

(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 $37,107,000 (2009: $34,775,000) as at 31 December 2010 to the Group. No rental is paid or payable by any of the group companies.

(v) Use of trademarks

During the years ended 31 December 2010 and 2009, 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.

(vi) 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.

39 Related Party Transactions (continued)

(b) Amounts due from related companies

	2010 $'000	2009 $'000
Trade receivables		
Itoham	**–**	4
Non-trade receivables		
Itoham	**158**	–
Total	**158**	4

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 2010 and 2009.

(c) Amounts due to related companies

	2010 $'000	2009 $'000
Trade payables		
Anqing Furun	**41**	–
Liaocheng Furun	**95**	1,716
Itoham	**310**	3,004
Danjiangkou Furun	**365**	243
Linyi Furun	**115**	200
Shouxian Furun	**76**	428
Xuzhou Furun	**217**	334
Shulan Furun	**1,669**	–
Suixi Furun	**329**	–
	3,217	5,925
Non-trade payables		
Willie Holdings	**–**	4,998
Total	**3,217**	10,923

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

39 Related Party Transactions (continued)

(d) Key management personnel remuneration

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

	2010	2009
	$'000	$'000
Salaries and other emoluments	**9,996**	7,524
Contributions to retirement benefit schemes	**256**	224
Share-based payment	**2,722**	6,783
Total	**12,974**	14,531

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

40 Subsequent Event

On 29 March 2011, the Board of Directors of the Company approved a capital expenditure plan for 2011 amounting to $3,000,000,000, including the investment plan to set up in Nanjing a factory as approved by the Board of Directors in June 2010.

41 Accounting Estimates and Judgements

Key sources of estimation uncertainty

Notes 4 and 37 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, lease prepayments and goodwill

The Group reviews its property, plant and equipment, construction in progress, investment properties, lease prepayments and goodwill for indications of impairment at each balance sheet date according to accounting policies set out in note 3(j). The recoverable amount is estimated based on 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.

41 Accounting Estimates and Judgements (continued)

Key sources of estimation uncertainty (continued)

(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.

(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.

(Expressed in Hong Kong dollars)

42 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Year Ended 31 December 2010

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 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
IAS 24 (Revised), "Related party disclosure"	1 January 2011
IFRS 9, "Financial instruments"	1 January 2013

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.

Appendix 1

The following list contains only the particulars of subsidiaries as at 31 December 2010 which principally affected the results, assets or liabilities of the Group.

Name of company (note (iv))	Place of establishment and operation	Registered capital	Attributable equity by interest held the Company Direct %	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	–	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	–	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	–	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	–	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$73,000,000	–	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	–	100	Slaughtering, production and sales of chilled and frozen meat

List of Principal Subsidiaries

Appendix 1 (continued)

Name of company (note (iv))	Place of establishment and operation	Registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Xiangfan Zhende Meat Product Co., Ltd. (note (iii)) 襄樊禎德肉類食品有限公司	PRC	RMB5,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Jiangsu Yurun Food Co., Ltd. (note (iii)) 江蘇雨潤肉食品有限公司	PRC	RMB1,000,000,000	–	100	Production and sales of processed meat products
Liangyungang Yurun Food Co., Ltd. (note (i)) 連雲港雨潤食品有限公司	PRC	US$67,500,000	–	100	Production and sales of processed meat products
Maanshan Yurun Food Co., Ltd. (note (i)) 馬鞍山雨潤食品有限公司	PRC	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$190,000,000	–	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	–	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$60,000,000	–	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 domestic 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)(ii) and have been consolidated into the consolidated financial statements.

Five-year Summary

(Expressed in Hong Kong dollars)

	2006 $'000	2007 $'000	2008 $'000	2009 $'000	**2010** **$'000**
Assets and liabilities					
Non-current assets	1,293,445	2,970,991	5,065,556	7,733,573	**11,501,663**
Net current assets	1,356,342	2,363,485	1,237,613	988,738	**3,860,329**
Total assets less current liabilities	2,649,787	5,334,476	6,303,169	8,722,311	**15,361,992**
Non-current liabilities	(188,613)	(1,003,636)	(1,068,074)	(322,132)	**(879,494)**
Net assets	2,461,174	4,330,840	5,235,095	8,400,179	**14,482,498**
Share capital	145,195	152,695	153,107	167,322	**181,116**
Reserves	2,303,523	3,986,480	5,061,849	8,202,380	**14,255,593**
Total equity attributable to equity holders of the Company	2,448,718	4,139,175	5,214,956	8,369,702	**14,436,709**
Non-controlling interests	12,456	191,665	20,139	30,477	**45,789**
Total equity	2,461,174	4,330,840	5,235,095	8,400,179	**14,482,498**
Operating results					
Turnover	4,621,336	8,635,117	13,023,901	13,870,428	**21,472,747**
Result from operating activities	474,703	871,561	1,175,242	1,955,734	**2,973,924**
Net finance income/(costs)	11,886	41,218	64,001	(64,404)	**(47,635)**
Share of loss of an associate	(1,224)	(761)	(781)	(113)	**(447)**
Profit before income tax	485,365	912,018	1,238,462	1,891,217	**2,925,842**
Income tax expense	(5,504)	(51,189)	(101,449)	(142,573)	**(189,113)**
Profit for the year	479,861	860,829	1,137,013	1,748,644	**2,736,729**
Attributable to:					
Equity holders of the Company	480,963	859,319	1,137,781	1,745,288	**2,728,176**
Non-controlling interests	(1,102)	1,510	(768)	3,356	**8,553**
Profit for the year	479,861	860,829	1,137,013	1,748,644	**2,736,729**
Earnings per share					
Basic ($)	0.331	0.584	0.744	1.089	**1.565**
Diluted ($)	0.331	0.582	0.736	1.074	**1.551**