CHINA YURUN FOOD GROUP LIMITED
中國雨潤食品集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1068)

ANNUAL RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

	2010	2009	Growth
	(HK$ in million)	*(HK$ in million)*	
Turnover	**21,473**	13,870	54.8%
Gross profit	**3,098**	2,161	43.3%
Profit attributable to equity holders of the Company	**2,728**	1,745	56.3%
Diluted earnings per share *(HK$)*	**1.551**	1.074	44.4%

In 2010, Yurun Food reported a strong growth in various aspects despite the significant fluctuation in hog prices:

- Turnover rose by 54.8% to HK$21.473 billion
- Gross profit margins of upstream slaughtering business, LTMP and HTMP reached historical high
- Operating expenses as a percentage of turnover reduced to a historical low since the Initial Public Offering of the Company
- Profit attributable to equity holders of the Company soared 56.3% to HK$2.728 billion compared with 2009

SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 ("Review Year") together with the comparative figures of the corresponding period in 2009 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	3	**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	5	**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		**(47,635)**	(64,404)
Share of loss of an associate (net of income tax)		**(447)**	(113)
Profit before income tax	6	**2,925,842**	1,891,217
Income tax expense	7	**(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	9(a)	**HK$1.565**	HK$1.089
Diluted	9(b)	**HK$1.551**	HK$1.074

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010** ***HK$'000***	2009 *HK$'000*
Profit for the year		**2,736,729**	1,748,644
Other comprehensive income for the year (after reclassification adjustments)	*10*		
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

CONSOLIDATED BALANCE SHEET

At 31 December 2010

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

	Note	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Bank loans		**529,798**	24,361
Finance lease liabilities		**170,869**	164,414
Deferred tax liabilities		**178,827**	133,357
		879,494	322,132
NET ASSETS		**14,482,498**	8,400,179
EQUITY			
Share capital	*13*	**181,116**	167,322
Reserves		**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

Notes:

1. REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respects was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. CHANGES IN ACCOUNTING POLICIES

(a) Accounting for business combinations

From 1 January 2010 the Group has applied International Financial Reporting Standard ("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.

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.

(b) 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.

(c) 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. TURNOVER AND SEGMENT INFORMATION

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.

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 review the results of the two operating segments regularly. The decisions made regarding resources allocation and performance assessment are mainly based on the segment results.

(a) Segment results

	Chilled and frozen meat		Processed meat products		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'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 before income tax	**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)

(b) **Reconciliations of reportable segment revenue and profit**

	2010	2009
	HK$'000	*HK$'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

4. 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 HK$9,136,000.

In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill of HK$39,732,000.

(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 HK$11,000.

In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill of HK$93,557,000.

(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 HK$12,000.

In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill of HK$52,848,000.

\# *The English translations of these companies names are for reference only. The official names of these companies are in Chinese.*

5. OTHER OPERATING INCOME

	2010	2009
	HK$'000	*HK$'000*
Government subsidies	**713,283**	425,593
Recognition of negative goodwill arising on business combinations *(note 4)*	**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.

6. PROFIT BEFORE INCOME TAX

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

	2010	2009
	HK$'000	*HK$'000*
Cost of inventories	**18,375,204**	11,709,551
Depreciation	**248,706**	152,875
Loss/(gain) on disposal of property, plant and equipment	**5,290**	(14,950)
Amortisation of lease prepayments	**38,309**	26,386
Interest on bank loans	**140,603**	89,109

7. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

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

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

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

(c) Pursuant to the income tax rules and regulations of the People's Republic of China (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 HK$4,631,484,000 (31 December 2009: HK$2,647,443,000). Deferred tax liabilities of HK$54,118,000 (31 December 2009: HK$Nil) in respect of the undistributed profits of HK$1,082,365,000 (31 December 2009: HK$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.

8. DIVIDENDS

Dividends payable to equity holders of the Company attributable to the year

	2010	2009
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK$0.200 (2009: HK$0.150) per share	**352,831**	250,870
Final dividend proposed after the balance sheet date of HK$0.200 (2009: HK$0.150) 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.

9. 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 HK$2,728,176,000 (2009: HK$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.

(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 HK$2,728,176,000 (2009: HK$1,745,288,000) and the weighted average number of 1,758,691,000 (2009: 1,624,900,000) shares.

10. 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.

11. TRADE AND OTHER RECEIVABLES

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

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

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

	2010	2009
	HK$'000	*HK$'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.

12. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'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	**–**	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
	1,817,121	1,084,750

An ageing analysis of trade payables of the Group is analysed as follows:

	2010	2009
	HK$'000	*HK$'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

13. SHARE CAPITAL

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 HK$0.10 each were issued at a price of HK$23.88 and HK$30.00 per share respectively.

During the year ended 31 December 2010, options were exercised to subscribe for 937,000 (2009: 12,154,000) new ordinary shares of the Company at a price of HK$7.46 per share.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 31 May 2011. The notice of Annual General Meeting will be published and sent to the shareholders of the Company in due course.

FINAL DIVIDEND

The Board recommended a final dividend of HK$0.20 (2009: HK$0.15) per share, subject to shareholders' approval at the forthcoming Annual General Meeting. This final dividend, if approved at the Annual General Meeting, together with the interim dividend of HK$0.20 per share (2009: HK$0.15), will make a total dividend of HK$0.40 (2009: HK$0.30) per share for the year ended 31 December 2010.

The proposed final dividend, if approved, 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 27 May 2011 to Tuesday, 31 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 26 May 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In 2010, the Chinese economy continued to maintain a strong momentum with a GDP growth rate of 10.3%, which created a favorable macroeconomic environment for the overall Chinese consumption market. However, significant hog price volatility during the Review Year has 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 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, Yurun Food further increased its market share through integration of market resources and the optimization of its markets and production capacity. This not only contributes to strengthening 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 advantage and strengthen its leading position in the industry. Given the expanded scale of China's urbanization and growing preference for 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.

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.

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 the 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 is 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 possesses a steady and abundant operating cash flow and appropriate financing arrangements have been 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.

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 (31 December 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 (31 December 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 announcement, the budget and plan are yet to be finalised and the Group has not at this stage identified any particular targets or opportunities. Save as disclosed herein, the Group did not hold any other significant investment or had any material acquisition and sale of subsidiaries during the Review Year. As at the date of this announcement, 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has fully complied with all applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules ("Model Code") as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiry of all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the year.

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 to investors as set out in the Company's announcements dated 22 April 2010 and 4 November 2010.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the annual results for the year ended 31 December 2010.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 29 March 2011

As at the date of this announcement, the executive directors are Zhu Yicai, Zhu Yiliang, Feng Kuande, Ge Yuqi and Yu Zhangli; the non-executive directors are Jiao Shuge (alias Jiao Zhen), Wang Kaitian and Li Chenghua; and the independent non-executive directors are Gao Hui, Qiao Jun and Chen Jianguo.

* *For identification purposes only*