China Yurun Food Group Limited

中國雨潤食品集團有限公司

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

Yurun Food

Annual Report
2011

雨潤

食品

Contents

Corporate Information

Board of Directors

Executive Directors

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

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office

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

Principal Place of Business in Hong Kong

Rooms 4207-08, 42nd Floor
Tower One, Lippo Centre
89 Queensway
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
Cleary Gottlieb Steen & Hamilton (Hong Kong)
Iu, Lai & Li Solicitors & Notaries

As to Bermuda Law

Conyers Dill & Pearman

Stock Code

1068

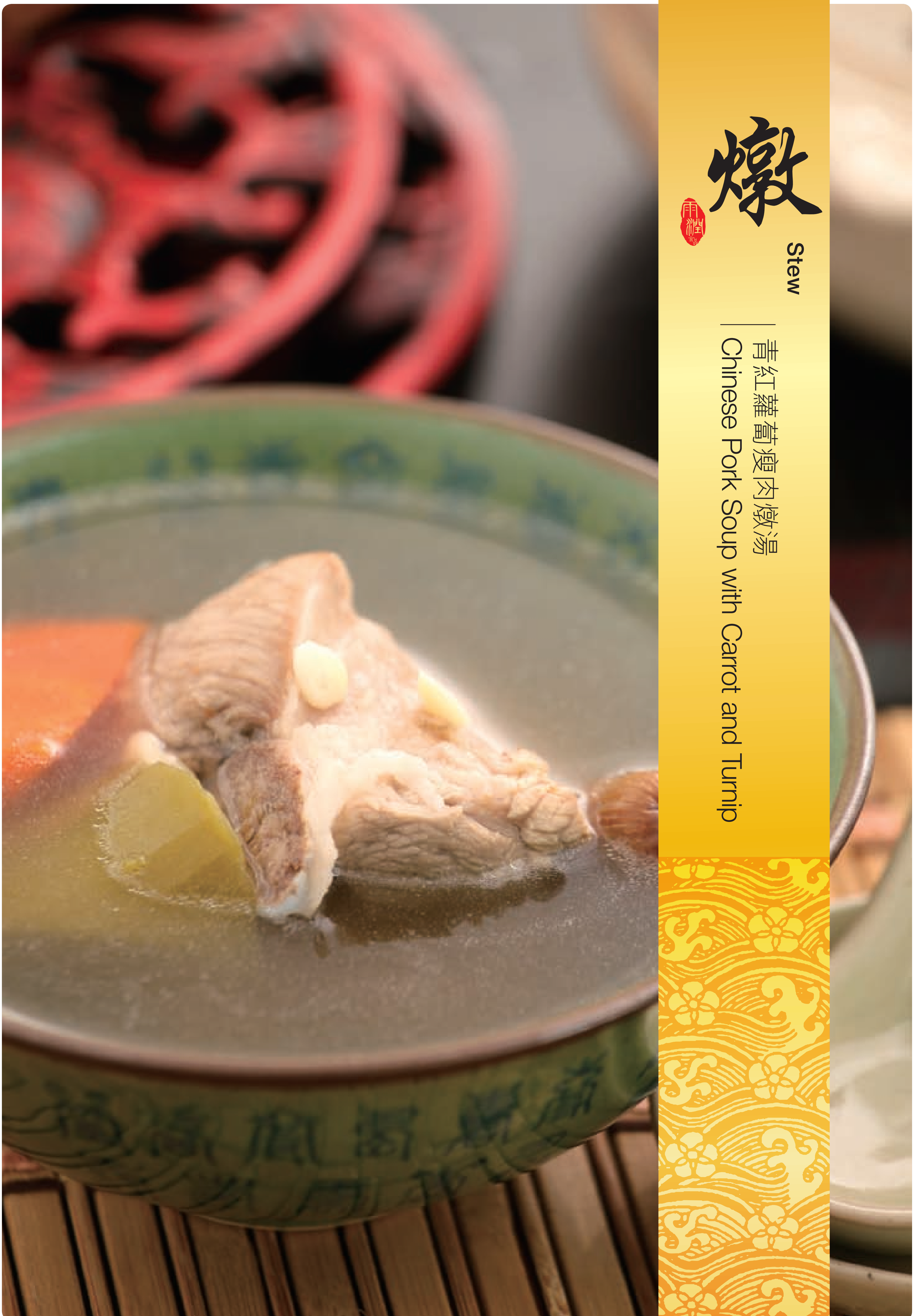
Website

www.yurun.com.hk

燉

Stew

青紅蘿蔔瘦肉燉湯
Chinese Pork Soup with Carrot and Turnip



Chairman's Statement

"We believe that rising consumer awareness of food safety will support the Central Government's determination in implementation of industry consolidation policies, as well as the development of market leaders that adopt internationally recognized quality control measures, and ensure continuous supply of high-quality and safe meat products to Chinese consumers."

Mr. Zhu Yicai
Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board" or the "Directors") 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 2011 (the "Review Year").

Business Review

In 2011, the hog slaughtering and pork product industries in China remained buoyant yet it faced unprecedented challenges. The steady growth of the Chinese economy and the orderly development of the hog slaughtering industry in China created a favourable macro business environment for the consumer goods market in China. However, extensive media coverage regarding both the quality and safety issues of Chinese pork products as well as industry standards weakened consumer confidence in Chinese pork products. Significant volatility in domestic hog prices and increasing labour costs during the Review Year also brought tremendous impact to the hog slaughtering and pork product industry.

In 2011, hog prices experienced enormous fluctuations again. In the first half of the year, hog prices increased significantly due to reduced hog supply and continuously rising breeding costs. As hog supplies gradually increased, hog prices increase slowed down in the second half of the year. Despite this, hog prices during the Review Year still recorded a significant increase as compared to 2010.

The Group believes that the consumers' constantly rising concerns on food safety will support the Central Government's determination in implementing industry consolidation policies for the purpose of promoting a steady and sustainable development of the pork product industry in China as well as the market leaders that already adopted quality control measures of international standards, and to ensure continuous supply of high-quality and safe meat products to Chinese consumers. During the Review Year, 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, optimized the industry structure, motivated the consolidation of the slaughtering industry and secured its stable and sustainable development in China.

Due to continuing increases in labour and production costs during the Review Year, as well as impacts of various media coverage over months, the business environment for the Group changed adversely in the second half of 2011, in particular, it became extremely difficult in the fourth quarter. During the Review Year, the Group recorded a turnover of HK$32.315 billion (2010: HK$21.473 billion), and profit attributable to equity holders of HK$1.799 billion (2010: HK$2.728 billion), representing an increase of 50.5% and a decrease of 34.1% respectively as compared to that of last year. Core net profit for the Review Year, being profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains of the Group, was HK$1.071 billion (2010: HK$1.788 billion), representing a decrease of 40.1% as compared to that of last year.

Facing severe challenges, Yurun Food implemented rigorous cost control measures and proactive marketing strategies, which included advertisements on China Central Television (CCTV) and mobile media, as well as various effective promotional activities. The Company strived to restore its business and maintain its market share and ensured such short-term challenges would not have any far-reaching impact on the Group's future development.

During the Review Year, the Group continued to implement stringent quality control procedures and individual testing on hogs to ensure that rigorous tests were in place to monitor every process from raw material selection and procurement to production so that our products were in line with national and international food safety standards. As a leading enterprise in the meat products industry, Yurun Food was awarded the "Food Safety Model Enterprise" and the "Outstanding Contribution Enterprise" at the 9th China Food Safety Annual Conference in 2011.

In addition, the Group continued to increase its upstream and downstream production capacity and optimize its production capacity through mergers and acquisitions and equipment upgrade, so as to strengthen the Group's foundation on overall business performance in the future to capture business opportunities arising from the long-term industry consolidation.

Prospect

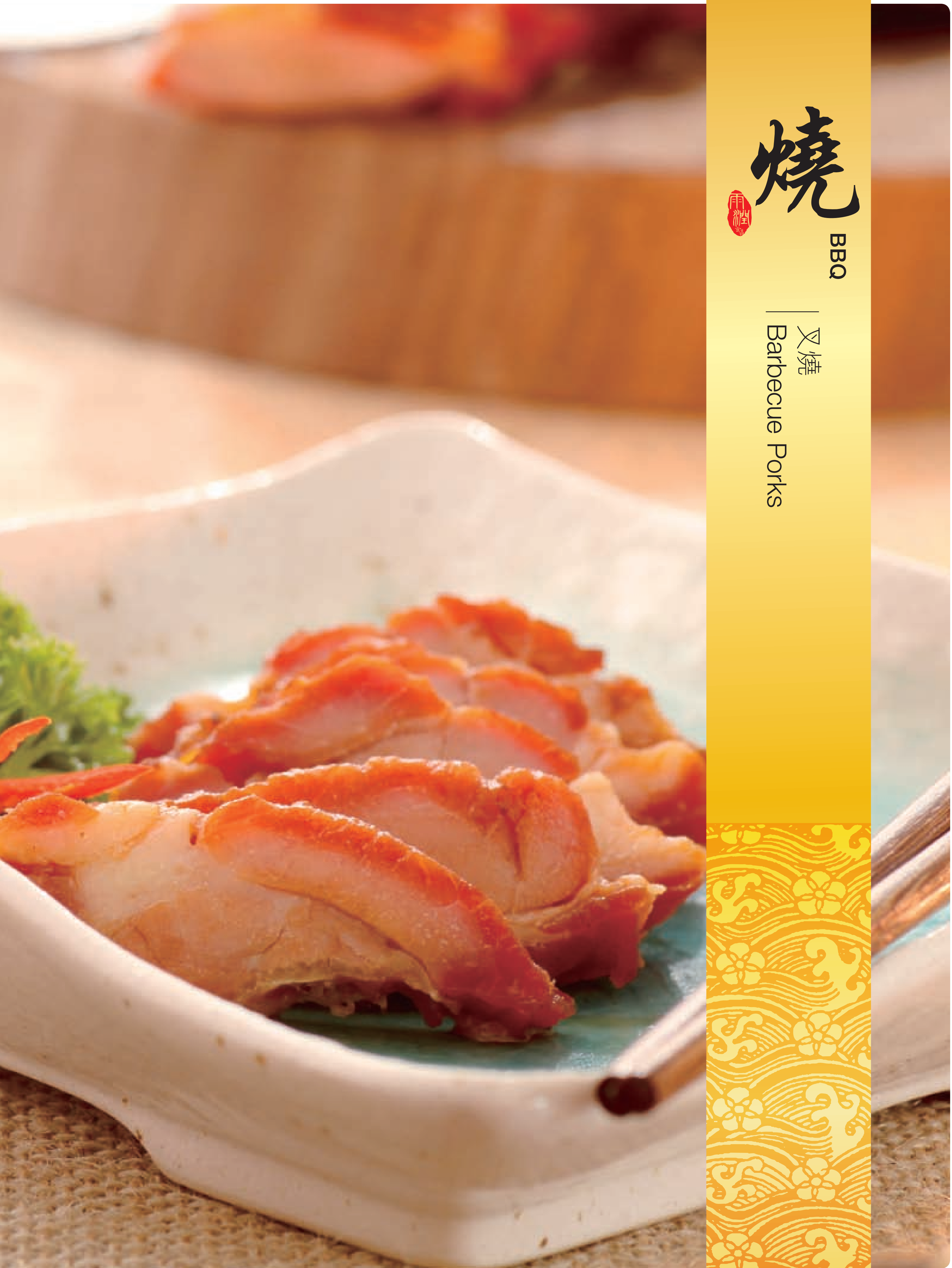
The Chinese economy is anticipated to sustain strong growth in 2012. The increasing per-capita disposable income of Chinese nationals and growing consumption in supermarket shopping in cities will fuel the growth in demand for quality meat products and improvement in business environment for the meat products industry. In addition, the Central Government's favourable industry policies will further stabilize hog prices and in turn balance the hog supply that will facilitate the steady growth in the hog slaughtering and meat processing industry. The Central Government aims at extensively eliminating outdated hog slaughtering capacity not conforming with the hygienic and technological management standards across the nation by 2015, and to further facilitate industry consolidation. Supported by the improving consumer market and policies favourable to stable hog supply, the Group believes that its two major businesses, chilled pork products and low temperature meat products ("LTMP"), will continue to benefit from the abundant hog supply and further industry consolidation and hence promoting remarkable overall growth of the Group.

Leveraging on its diversified and effective marketing strategies, thorough implementation of internationally recognized quality control measures, flexible mix of its upstream and downstream business segments as well as improving nationwide hog slaughtering production capacity, the Board is confident that the Group's business will progressively resume to normal and realize long-term steady growth. In 2012, under the guidance of its outstanding management team and benefiting from favourable government policies, the Group will continue to fortify the base of the brands, strengthen the crisis and risks management, increase the defensiveness of the brands and to enhance its competitive advantages in the market through strengthening its corporate image and increasing public relations efforts and series of marketing activities, so as to capture the valuable business opportunities arising from industry consolidation for better results.

Acknowledgement

Yurun Food will strive to remain its leading role in the meat products manufacturing industry in China and commit to the highest level of product quality, safety and hygiene standards and to provide quality meat products to the public under our motto of "you trust because we care". 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 consistent support and trust. My gratitude also goes to our excellent management team and staff who, with their ample experience in the industry and relentless efforts, have contributed to the Group's success amid a challenging market environment over the past years.

Zhu Yicai
Chairman
Hong Kong, 9 March 2012



燒

BBQ

叉燒
Barbecue Porks

"Leveraging on the Group's collective efforts, thorough implementation of internationally recognized quality control measures and diversified marketing strategies, the Board is confident that the Group's business will realize a long-term steady growth."

Industry Overview

In 2011, the Chinese economy sustained rapid development. However, due to the substantial increase in raw material costs (in particular hog price) as well as media coverage on the industry, the pork product industry in China was under enormous pressure.

During the Review Year, nation-wide hog prices increased by over 48% as compared to 2010. Continuous increase in labour and production costs also brought tremendous challenges to the hog slaughtering and pork product industry in China. Due to the impact of media coverage over months, the business environment became extremely difficult for the Group in the second half of 2011 (especially in the fourth quarter). Facing these severe challenges, Yurun Food implemented proactive marketing strategies and rigorous cost control measures. The Company strived to restore its business and maintain its market share and ensured such short-term challenges would not have any far-reaching impact on the Group's future development. Leveraged on the Group's collective efforts, thorough implementation of internationally recognized quality control measures and diversified marketing strategies, the Board is confident that the Group's business will progressively resume and realize long-term steady growth.

During the Review Year, the hog slaughtering industry in China continued to develop systematically. Since the Central Government promulgated the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" in late 2009, the Central Government has gradually eliminated domestic outdated manual and semi-mechanical hog slaughtering capacity with an aim to eliminate over 50% of the outdated capacity by 2015. As the industry structure is continually enhanced, the reform and consolidation of the slaughtering industry in China will be significantly improved and the stable and sustainable development of the industry can be reaffirmed, which will benefit the leading enterprises of the industry to sustain their long-term business growth through competitive advantages in brand building, production capacity and market allocation.

Business Review

In 2011, amidst the difficult business environment, Yurun Food's various business segments achieved relatively stable development. Chilled pork products and low temperature meat products ("LTMP"), which are of higher added value, continued to be the Group's key source of revenue.

Product Quality and R&D

It has always been Yurun Food's aim to produce products of the highest quality. Leveraging on its stringent quality control, Yurun Food was awarded the "Food Safety Model Enterprise" and the "Outstanding Contribution Enterprise" in the 9th China Food Safety Annual Conference in 2011. In future, the Group will continue to focus on developing competitive products so as to maintain its competitive advantages and consolidate its market share in the industry.

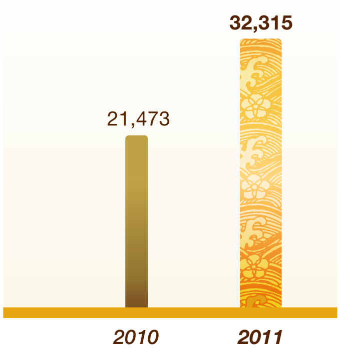
Sales and Distribution

Chilled pork and LTMP, being the Group's products with relatively higher added value, continued to play an important role in the Group's business during the Review Year. In 2011, sales of chilled pork reached HK$24.558 billion (2010: HK$15.198 billion), representing an increase of 61.6% as compared to that of last year, which accounted for 74% of total turnover before inter-segment eliminations (2010: 67%) and 83% of total turnover of the upstream business segment (2010: 81%). Sales of LTMP was HK$3.379 billion (2010: HK$3.525 billion), representing a decrease of 4.1% as compared to that of last year, which accounted for 10% of total turnover before inter-segment eliminations (2010: 16%) and 88% of total turnover of the downstream business segment (2010: 92%).

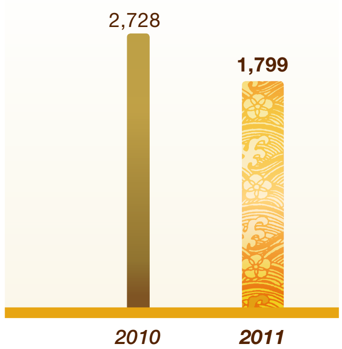
Production Facilities and Production Capacity

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

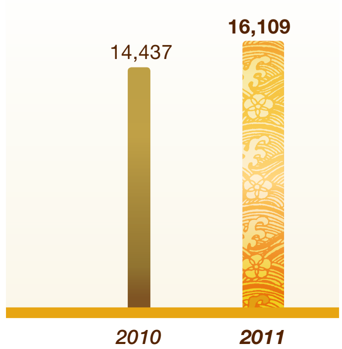
Turnover
HK$ million



Profit Attributable to Equity Holders
HK$ million



Total Equity Attributable to Equity Holders
HK$ million



With respect to its upstream slaughtering segment, the slaughtering capacity of the Group reached 46.05 million heads per year at the end of 2011, representing an increase of 10.45 million heads as compared to that at the end of 2010. The Group will continue to expand its capacity and gradually enhance its nation-wide production capacity in the coming years and aims at reaching a slaughtering capacity of 70.00 million heads per year by 2015, so as to further strengthen its leading position in the industry and capture tremendous business opportunities arising from industry consolidation.

As at the end of 2011, the Group's annual downstream meat processing capacity was 304,000 tons. The Group will continue to expand its capacity systematically in the coming years, targeting to increase market coverage, reduce bottlenecks in productions and upgrade key production facilities. During the Review Year, the construction of the processed meat production base in Nanjing was substantially completed and operations are scheduled to begin in stages by the end of 2012, which will then increase downstream production capacity.

Financial Review

Due to the impact of continuous increase in labour and raw material costs (in particular hog price) as well as weakened consumer confidence in the industry, the business environment became extremely difficult for the Group in the second half of 2011 (especially in the fourth quarter). The Group, however, recorded a turnover of HK$32.315 billion in 2011, representing an increase of 50.5% as compared to HK$21.473 billion last year. As hog prices increased significantly, turnover of the upstream chilled and frozen pork segment (before inter-segment eliminations) increased accordingly by 57.1% as compared to HK$18.833 billion in 2010 to HK$29.586 billion in 2011.

In 2011, the Group recorded a net profit of HK$1.799 billion (2010: HK$2.728 billion), representing a decrease of approximately 34.1% as compared to that of last year. Core net profit, being profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains of the Group, was HK$1.071 billion (2010: HK$1.788 billion), representing a decrease of 40.1% as compared to that of last year. Diluted earnings per share was HK$0.985, representing a decrease of 36.5% as compared to HK$1.551 of last year.

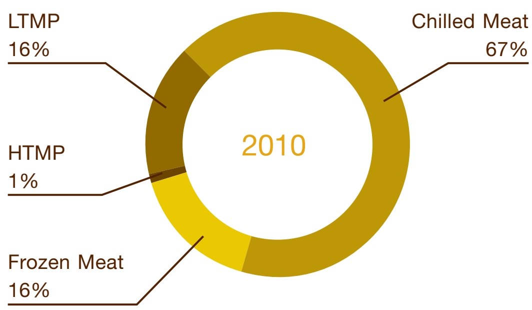
Turnover

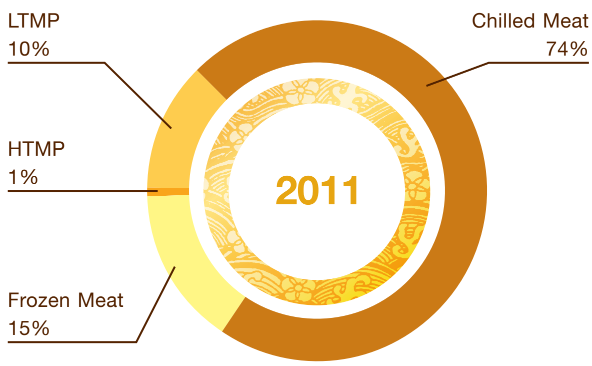
Chilled and Frozen Pork

During the Review Year, the Group's slaughtering volume was about the same as that of last year.

In 2011, total sales generated from the upstream business (before inter-segment eliminations) increased by 57.1% to HK$29.586 billion (2010: HK$18.833 billion) as compared to that of last year. Sales of chilled pork increased by 61.6% to HK$24.558 billion (2010: HK$15.198 billion), accounting for approximately 83% (2010: 81%) of the total turnover of the upstream business. In line with the strategy

Turnover breakdown by Segment*





* *Including inter-segment sales*

of the Group, sales of frozen pork increased by 38.3% to HK$5.028 billion (2010: HK$3.635 billion), accounting for approximately 17% (2010: 19%) of the total turnover of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products (before inter-segment eliminations) reached HK$3.841 billion (2010: HK$3.821 billion), which was approximately the same as that of last year.

During the Review Year, turnover of LTMP was HK$3.379 billion, representing a decrease of 4.1% as compared to HK$3.525 billion in 2010. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 88% (2010: 92%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$462 million (2010: HK$296 million), accounting for approximately 12% (2010: 8%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by 10.1% from HK$3.098 billion in 2010 to HK$2.785 billion in 2011. Gross profit margin decreased by 5.8 percentage points from 14.4% in 2010 to 8.6%. The decrease in gross profit margin was mainly due to the significant increase in labour and raw material costs (in particular hog price), and the media coverage over months adversely affected both the reputation of the Group and market confidence in the Group's products, resulting in greater difficulty in transferring the Group's increased costs to its customers.

With respect to the upstream business, gross profit margin of chilled and frozen pork was 6.6% and 5.9% respectively (2010: 11.3% and 7.2% respectively). The overall gross profit margin of the upstream segment was 6.5%, representing a decrease of 4.0 percentage points as compared to 10.5% of last year.

With respect to downstream products, gross profit margin of LTMP was 22.6%, representing a decrease of 7.3 percentage points as compared to 29.9% of last year. Gross profit margin of HTMP was 18.6%, representing a decrease of 4.1 percentage points as compared to that of last year. Overall gross profit margin of the downstream segment was 22.1%, a decrease of 7.2 percentage points as compared to 29.3% of last year.

Other Operating Income

During the Review Year, other operating income of the Group was HK$703 million, representing a decrease of 27.2% as compared to HK$966 million in 2010. Other operating income mainly included government subsidies and negative goodwill. Government subsidies which was recognized on the basis of the confirmation letter from the relevant government authorities and was already received in cash amounted to HK$654 million (2010: HK$713 million). No negative goodwill was recognized during the Review Year. Negative goodwill was HK$186 million in 2010.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.546 billion, representing an increase of 41.9% as compared to HK$1.090 billion in 2010. Operating expenses represented 4.8% of the Group's turnover, a decrease of 0.3 percentage point as compared to 5.1% of last year.

Operating Profit

In 2011, operating profit of the Group was HK$1.942 billion, representing a decrease of 34.7% as compared to HK$2.974 billion of last year.

Net Finance Costs

Net finance costs of the Group was HK$36 million in 2011, representing a decrease of 23.9% as compared to HK$48 million in 2010. The decrease in net finance costs was mainly due to the increase in foreign exchange gain.

Income Tax

The total income tax for the year ended 31 December 2011 was HK$100 million, representing a decrease of 47.4% as compared to HK$189 million of last year. Effective tax rate for the year was 5.2%, representing a decrease of 1.3 percentage points as compared to 6.5% in 2010.

Net Profit

Taking into account of all the above factors, net profit of the Group decreased by approximately 34.1% from HK$2.728 billion in 2010 to HK$1.799 billion in 2011. Net profit margin for the Review Year was 5.6%, representing a decrease of 7.1 percentage points as compared to 12.7% of last year. Core net profit of the Group, being profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains, was HK$1.071 billion (2010: HK$1.788 billion), a decrease of 40.1% as compared to that of last year. Net core profit margin was 3.3% during the Review Year, representing a decrease of 5.0 percentage points as compared to 8.3% of last year.

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities during the Review Year. The Group's net cash inflow from operating activities in 2011 amounted to HK$2.272 billion (2010: HK$2.986 billion) with a cash balance including time deposits and pledged deposits of HK$5.338 billion as at 31 December 2011, representing a decrease of HK$1.013 billion as compared to HK$6.351 billion as at 31 December 2010.

As at 31 December 2011, the Group had an outstanding loan of HK$5.926 billion, representing an increase of HK$2.245 billion from HK$3.681 billion as at the end of 2010. HK$5.141 billion (2010: HK$3.151 billion) of our borrowings was classified as repayable within one year and

89.7% (2010: 90.5%) of our borrowings was denominated in Renminbi ("RMB"). The fixed rate debt ratio of the Group was 40.3% (2010: 63.8%) as at 31 December 2011. 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 2011, the total assets and total liabilities of the Group were HK$25.479 billion (2010: HK$20.361 billion) and HK$9.307 billion (2010: HK$5.878 billion) respectively, representing an increase of HK$5.118 billion and HK$3.429 billion as compared to those as at 31 December 2010 respectively.

As at 31 December 2011, property, plant and equipment of the Group amounted to HK$12.635 billion (2010: HK$8.037 billion), representing an increase of HK$4.598 billion as compared to that as at 31 December 2010. Property, plant and equipment comprised construction in progress amounted to HK$4.239 billion (2010: HK$1.928 billion), of which no depreciation was provided for during the Review Year.

Lease prepayments of the Group as at 31 December 2011 amounted to HK$3.353 billion (2010: HK$2.207 billion). This represented the acquisition cost of land use rights, which was amortized on a straight-line basis over the respective periods of the land use rights.

Non-current prepayments of the Group represented prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2011, such prepayments amounted to HK$852 million (2010: HK$953 million).

As at 31 December 2011, equity attributable to equity holders of the Company was HK$16.109 billion, representing an increase of HK$1.672 billion as compared to HK$14.437 billion as at 31 December 2010.

As at 31 December 2011, 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 27.5%, representing an increase of 6.4 percentage points as compared to 21.1% as at 31 December 2010. As at 31 December 2011, excluding cash, time deposits and pledged deposits, the gearing ratio of the Group was 3.4%. As at 31 December 2010, the Group was in net cash position.

Charges on Assets

As at 31 December 2011, certain properties and construction in progress of the Group with a carrying amount of HK$128 million, and lease prepayments of the Group with a carrying amount of HK$292 million (2010: HK$44.76 million and HK$31.95 million respectively) were pledged against certain bank loans with a total amount of HK$730 million (2010: HK$80.87 million).

Secured bank loans of the Group as at 31 December 2011 totalling HK$116 million (2010: HK$Nil) were secured by pledged deposits denominated in RMB equivalent to HK$131 million.

As at 31 December 2011, the bills payable and derivative financial instruments were secured by pledged deposits denominated in RMB amounting to HK$6.23 million (2010: HK$Nil) and HK$41.71 million (2010: HK$66.65 million) respectively.

As at 31 December 2011, the Group had no intra-group bills payable. As at 31 December 2010, intra-group bills payable totalling HK$379 million were secured by pledged deposits amounting to HK$161 million. The corresponding intra-group bills receivable totalling HK$379 million were discounted with recourse for proceeds of HK$377 million.

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

The preliminary capital expenditure plan for 2012 approved by the Board amounted to approximately HK$1.5 billion. As at the date of this report, the budget and plan are yet to be finalized and the Group has not at this stage identified any particular targets or opportunities. Save as disclosed herein, the Group did not hold any other substantial investment or have any substantial acquisition and sale of subsidiaries during the Review Year. As at the date of this report, the Group has no plan to make any substantial investment in or acquisition of capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 31 December 2011.

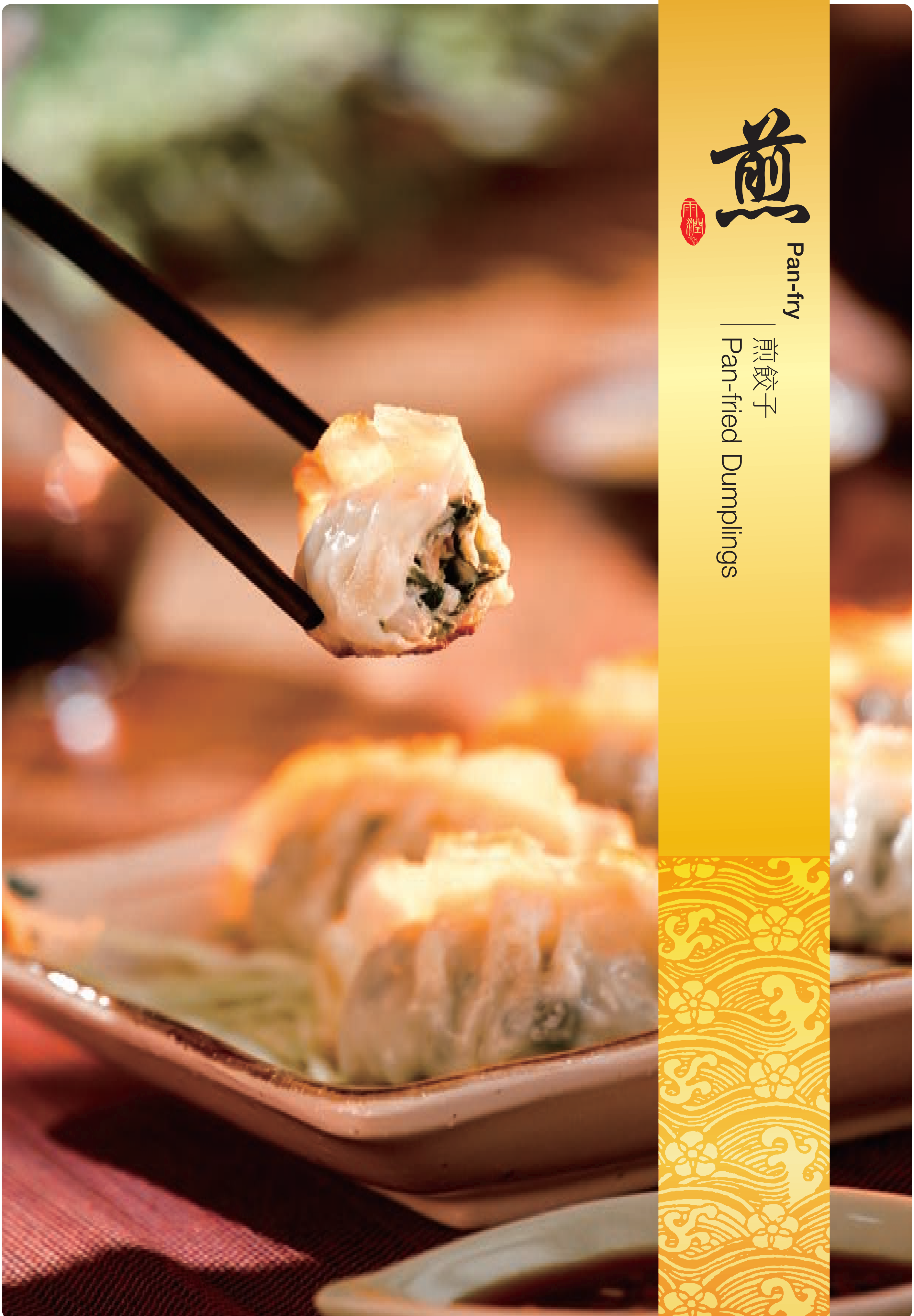
Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euro dollars or Hong Kong dollars, the Group's transactions are mainly settled in RMB. The functional currency of operating subsidiaries of the Group in the People's Republic of China (the "PRC") is RMB, which is not freely convertible into foreign currencies. The Group has entered into Euro foreign exchange forward contracts. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

As at 31 December 2011, the Group had approximately 27,000 (2010: 21,200) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$852 million (2010: HK$598 million), accounting for 2.6% (2010: 2.8%) of the turnover of the Group.

The Group offered competitive remunerations and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance-based bonus 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.



煎

Pan-fry

煎餃子

Pan-fried Dumplings

Biographical Details of Directors

Executive 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 19 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. Yu Zhangli, aged 43, has been an executive Director of the Company since January 2010 and was appointed as the Chief Executive Officer of the Company with effect from 9 March 2012. He also holds directorships in various subsidiaries of the Company. Mr. Yu joined the Group in March 1996 and was responsible for the upstream chilled and frozen meat business of the Group. He has 16 years of experience in the industry. He graduated from the School of Business Administration of Henan University with specialisation in economic management.

Mr. Zhu Yiliang, aged 46, has been an executive Director since April 2005 and also holds directorships in various subsidiaries of the Company. He oversees the processed meat products business of the Group. He was the Chief Executive Officer of the Company from April 2007 to March 2012. Mr. Zhu joined the Group in May 1996 and has 16 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 56, 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 the Group's business in Northeast China. Mr. Feng has 18 years of experience in the industry.

Mr. Ge Yuqi, aged 56, 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 31 years of experience in the industry.

Non-executive Directors

Mr. Jiao Shuge *(alias* Jiao Zhen*)*, aged 46, 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 a director 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. 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 54, has been a non-executive Director of the Company since January 2010. He is a vice chancellor and a professor of the School of Accounting of Nanjing University of Finance and Economics. He is principally engaged in teaching and research of accounting and financial management. Mr. Wang obtained a bachelor's degree in accounting from the Anhui University of Finance and Economics and a doctorate in accounting from Xiamen University.

He is currently an independent director of Nanjing Yunhai Special Metals Co., Ltd, a company listed on 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 47, has been a non-executive Director of the Company since January 2010. Mr. Li is a vice president and researcher of the Nanjing Academy of Social Sciences, and a professor and supervisor to postgraduates specialised in corporate management. He also obtained a doctorate in law from Nanjing University.

Independent Non-executive Directors

Mr. Gao Hui, aged 43, has been an independent non-executive Director of the Company since April 2005. He is a certified public accountant in the PRC and certified tax advisor in the 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 49, has been an independent non-executive Director of the Company since January 2010. He is the dean and a professor of the School of Marketing and Logistics Management of the Nanjing University of Finance and Economics. Mr. Qiao obtained a bachelor's degree in economics and a master's degree in philosophy, both from Shanghai Jiao Tong University, and a doctorate in law from Nanjing Normal University.

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

Mr. Chen Jianguo, aged 50, has been an independent non-executive Director of the Company since January 2010. He is a practising lawyer in the PRC and has been a partner of 江蘇金大律師事務所 (Jiangsu 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.

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 2011 annual report, together with the report of the Directors and the audited financial statements of the Group for the year ended 31 December 2011.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company 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 brands, "Yurun", "Furun", "Wangrun" and "Popular Meat Packing". 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 2011 and the state of affairs of the Group as at that date are set out in the audited financial statements on pages 39 to 107.

The Board does not recommend the payment of final dividend for the year.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2011 are set out in note 16 to the financial statements.

Share Capital

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

Pre-emptive Rights

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

Purchase, Sale or Redemption of Listed Securities of the Company

During the year, the Company repurchased a total of 1,800,000 ordinary shares of HK$0.10 each on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") in September 2011 at an aggregate consideration of HK$14,247,021 and these shares were subsequently cancelled by the Company. The highest price paid per share was HK$8.12 and the lowest price paid per share was HK$7.55. The Board considered the repurchases were in the interests of the Company and its shareholders as a whole with a view to enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Reserves

Details of the movements in the reserves of the Company during the year are set out in note 34 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 108 of this annual report.

Distributable Reserves

As at 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$7,682,310,000.

Charitable Donations

Charitable donations made by the Group during the year amounted to approximately HK$1,321,000.

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 or 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.

Directors

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

Executive Directors

Zhu Yicai [R/N]	*Chairman*
Yu Zhangli	*Chief Executive Officer, appointed as the Chief Executive Officer on 9 March 2012*
Zhu Yiliang	*Chief Executive Officer, ceased to be the Chief Executive Officer on 9 March 2012*
Feng Kuande	
Ge Yuqi	

Non-executive Directors

Jiao Shuge [A] (*alias* Jiao Zhen)
Wang Kaitian
Li Chenghua

Independent non-executive Directors

Gao Hui [A/R/N]
Qiao Jun [R]
Chen Jianguo [A/N]

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

The Company has received from each of Gao Hui, Qiao Jun and Chen Jianguo, the independent non-executive Directors, an annual confirmation of their respective 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.

Biographical Details of Directors

Biographical details of the Directors as at the date of this annual report are set out on pages 16 to 17 of this annual report. The senior management of the Group is also executive Directors of the Company.

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 on 3 October 2009 (except for the Chief Executive Officer and 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 the executive Directors, each of the executive Directors is entitled to a basic remuneration of US$80,000 per annum. During the year, the Company resolved to increase the basic remuneration of the executive Directors for the year 2011 from US$80,000 per annum to US$88,000 per annum.

Details of the remunerations payable to the Directors for the year ended 31 December 2011 are set out in note 11 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 non-executive Directors, Wang Kaitian and Li Chenghua, and the 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 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. During the year, the Company resolved to increase the remuneration of the non-executive and independent non-executive Directors for the year 2011. The annual remuneration of non-executive Directors (except for Jiao Shuge, who would continue to receive no remuneration) and independent non-executive Directors (except for Gao Hui) has each been increased from RMB100,000 to RMB110,000. The annual remuneration of Gao Hui, an independent non-executive Director, has been increased from HK$180,000 to HK$200,000. The Company received a written confirmation from Li Chenghua in February 2012, 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 2011.

All Directors are subject to the rotation provisions set out in the Bye-laws of the Company.

In accordance with Bye-law 87 of the Company's Bye-laws, Jiao Shuge (*alias* Jiao Zhen), Wang Kaitian, Li Chenghua and Chen Jianguo will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 during the financial year ended 31 December 2011 are set out on page 26 and pages 101 to 103 of this annual report respectively. Save as disclosed therein, 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, which subsisted at the end of the year or at any time during the year.

Competing Business

None of the Directors had any interest in any business that competes with the Company or any of its subsidiaries 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 2011, the number of issued ordinary shares of the Company was 1,822,755,650; 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) (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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

Interest in shares and underlying shares of the Company

Name of Directors	Company/ name of associated corporation	Capacity	Interest in ordinary shares	Interest in underlying shares[2]	Total	Approximate percentage of interest in such corporation
Zhu Yicai	Company	Interest in a controlled corporation	470,699,900[1]	—	470,699,900	25.82%
	Willie Holdings Limited	Beneficial owner	100[1]	—	100	100.00%
Yu Zhangli	Company	Beneficial owner	—	7,850,000	7,850,000	0.43%
Zhu Yiliang	Company	Beneficial owner	—	8,100,000	8,100,000	0.44%
Feng Kuande	Company	Beneficial owner	—	7,000,000	7,000,000	0.38%
Ge Yuqi	Company	Beneficial owner	—	8,000,000	8,000,000	0.44%

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. Willie Holdings was interested in 470,699,900 shares of the Company as at 31 December 2011. Mr. Zhu is deemed to be interested in the shares of the Company held by Willie Holdings as well as the entire issued share capital of Willie Holdings by virtue of Part XV of the SFO.

(2) The interests in the underlying shares represent the interests in the share options granted on 3 September 2011 pursuant to the Company's share option scheme, details of which are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 31 December 2011, 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, the "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 total 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 total 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 109,305,380 shares, representing approximately 6.00% 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 the shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board may 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 to achieve performance target in order to exercise the share options, subject to the terms set out in their respective offer letters.

(f) Payment for acceptance of option

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as a 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 (the "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 at a general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten years from 3 October 2005.

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

Name or category of participant	Number of shares which may be issued pursuant to the share options					Exercise price per share[4]	Date of grant	Option period [1] & [2]
	As at 1 January 2011	Granted during the year	Exercised during the year[5]	Lapsed during the year	As at 31 December 2011	HK$	(DD.MM.YYYY)	(DD.MM.YYYY)
Directors								
Yu Zhangli	150,000	–	(150,000)	–	–	7.46	10.11.2006	10.11.2006 – 09.11.2016
	–	7,850,000	–	–	7,850,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	150,000	7,850,000	(150,000)	–	7,850,000			
Zhu Yiliang	2,450,000	–	(2,450,000)	–	–	7.46	10.11.2006	10.11.2006 – 09.11.2016
	–	8,100,000	–	–	8,100,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	2,450,000	8,100,000	(2,450,000)	–	8,100,000			
Feng Kuande	2,500,000	–	(2,500,000)	–	–	7.46	10.11.2006	10.11.2006 – 09.11.2016
	–	7,000,000	–	–	7,000,000	18.04	03.09.2011	03.09.2011 – 02.09-2021
	2,500,000	7,000,000	(2,500,000)	–	7,000,000			
Ge Yuqi	2,500,000	–	(2,500,000)	–	–	7.46	10.11.2006	10.11.2006 – 09.11.2016
	–	8,000,000	–	–	8,000,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	2,500,000	8,000,000	(2,500,000)	–	8,000,000			
Subtotal	7,600,000[3]	30,950,000	(7,600,000)	–	30,950,000[3]			
Other employees (including ex-employees)								
In aggregate	13,433,000	–	(5,799,000)	–	7,634,000	7.46	10.11.2006	10.11.2006 – 09.11.2016
	–	52,450,000	–	–	52,450,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
Subtotal	13,433,000	52,450,000	(5,799,000)	–	60,084,000			
Total	21,033,000	83,400,000	(13,399,000)	–	91,034,000			

Notes:

(1) All of the share options granted on 10 November 2006 have been vested on the grantees.

(2) 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 respective offer letters, the share options granted on 3 September 2011 will be vested on the grantees in four equal tranches, i.e., 25% of the share options will be vested after the publication of the results of the financial years ended 2011, 2012, 2013 and 2014 respectively.

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

(4) The closing price of the shares of the Company immediately before the date of grant (i.e. 9 November 2006 and 2 September 2011 respectively) were HK$7.58 and HK$18.04 respectively.

(5) The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised during the year was HK$20.05.

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

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

Directors' Rights to Acquire Shares or Debentures

Details of share options granted to or exercised by the Directors or Qualified Participants of the Company during the year and their outstanding balances as at 31 December 2011 are set out in the paragraph headed "Share Option Scheme" on pages 22 to 24 of this annual report and note 32 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 which enables the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 31 December 2011, 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	470,699,900[(1)]	25.82%
Ms. Wu	Long position	470,699,900[(1)]	25.82%
JPMorgan Chase & Co.[(2)]	Long position	110,947,536	6.09%
	Short position	14,367,638	0.79%
	Lending pool	53,061,667	2.91%
Deutsche Bank Aktiengesellschaft[(3)]	Long position	91,487,139	5.01%
	Short position	50,039,821	2.74%
	Lending pool	15,812,300	0.86%
Capital Research and Management Company[(4)]	Long position	131,085,000	7.19%

Notes:

(1) These shares represent the shares of the Company 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, 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, these shares were held by JPMorgan Chase & Co. and corporations controlled by it in the respective capacities as detailed below:

Capacity	Number of shares Long position	Short position
Beneficial owner	17,328,869	14,367,638
Investment manager	40,557,000	–
Approved lending agent/Custodian	53,061,667	–

(3) So far as is known to the Directors, these shares were held by Deutsche Bank Aktiengesellschaft and corporations controlled by it in the respective capacities as detailed below:

Capacity	Number of shares Long position	Short position
Beneficial owner	8,385,271	4,563,298
Investment manager	10,293,500	–
Person having a security interest in shares	56,996,068	45,476,523
Approved lending agent/Custodian	15,812,300	–

(4) So far as is known to the Directors, these shares were held by Capital Research and Management Company in the capacity of investment manager.

Save as disclosed above, as at 31 December 2011, 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 Relevant Entities (as defined below)

On 20 December 2010, the Company entered into an agreement with Mr. Zhu (on behalf of the entities controlled by him including without limitation to Anqing Furun Poultry Product Co., Ltd., Liaocheng Furun Poultry Product Co., Ltd., Danjiangkou Furun Poultry Product Co., Ltd., Daye Furun Poultry Product Co., Ltd., Linyi Furun Poultry Product Co., Ltd., Shouxian Furun Poultry Product Co., Ltd., Shulan Furun Poultry Product Co., Ltd., Xuzhou Furun Poultry Product Co., Ltd., Fengqiu Furun Poultry Process Co., Ltd., Suixi Furun Poultry Product Co., Ltd. and Tuquan County Furun Poultry Product Co., Ltd. which are engaged in poultry product operations (the "Relevant Entities")) (the "New Purchase Agreement"). Pursuant to the New Purchase Agreement, the Relevant Entities have agreed to supply raw poultry meat to the Group for its production use. The price shall be determined by the relevant parties after negotiation by reference to the market price at the time when an order is placed. Such price, however, shall not be higher than the average price at which any of the Relevant Entities charges other independent parties for the same kind of products during that month. The New Purchase Agreement has a term of three years, commencing on 1 January 2011 and ending on 31 December 2013. Details of the New Purchase Agreement have been disclosed in the Company's announcement dated 20 December 2010.

The Relevant Entities are beneficially owned or controlled by Mr. Zhu, the Chairman and a substantial shareholder of the Company, and his associates. These companies are therefore connected persons of the Company as defined in the Listing Rules.

The aggregate purchase amount pursuant to the New Purchase Agreement during the year amounted to approximately HK$199,528,000.

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 and on the 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 38 to the financial statements.

Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient level 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 fully complied with all applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiry of all Directors, confirms that the Directors have complied with the required standards 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 30 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, 9 March 2012

蒸

Steam

菜肉大包

Steamed vegetable and pork buns

Corporate Governance Report

Corporate Governance Practices

China Yurun Food Group Limited (the "Company", together with its subsidiaries, the "Group") is committed to achieving high standard of corporate governance to safeguard shareholders' interest and to enhance corporate value and accountability. Throughout the year from 1 January 2011 to 31 December 2011 (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 16 to 17 of this annual report.

The Board, led by its Chairman, is responsible for approving and monitoring the Group's overall strategies and policies, approving annual budgets and business plans, evaluating the performance of the Group, and supervising the management. The Chairman also leads the Board to ensure that it acts in the best interests of the Company and its shareholders. To facilitate effective management, the Board has delegated certain functions to various Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of these Board committees operates under clearly defined written terms of reference. Chairmen of the Board committees will report to the Board on issues discussed and concluded at the respective committee meetings.

The Chairman ensures that the Board works effectively and objectively and all decisions are made in the interest of the Group and all key and appropriate issues are discussed by the Board members in a timely and effective manner. If a Director or his associate has a conflict of interest in a matter to be considered by the Board, he must declare such interest at the Board meeting. If the Board determines such interest to be material, the Director must abstain from voting and he shall not be counted in the quorum present at such Board meeting. The Chairman has appointed the Company Secretary to prepare agenda for each Board meeting and to ensure that all Directors are properly briefed on issues to be discussed at Board meetings and receive adequate and accurate information in a timely manner. The Company Secretary is Lee Wing Sze, Rosa who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

The Board delegates the day-to-day operational responsibilities to the executive management team under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with the executive management, is responsible for the business operation of the Group, including implementation of the strategies adopted by the Board.

The Chairman of the Board is Zhu Yicai, and the Chief Executive Officer during the Review Year and up to the date of this report was Zhu Yiliang. Yu Zhangli was appointed as the Chief Executive Officer in place of Zhu Yiliang on 9 March 2012. 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 while the non-executive Directors are well established in their respective professions. The Board consists of members with diversified background, professional expertise and experience to meet the business requirements of the Group, and as a team, provides the Group with core competencies such as industry knowledge, technical expertise, customer-oriented management experience and knowledge in finance, accounting, business and management.

Non-executive Directors and independent non-executive Directors are selected according to the skills and experience required by the Board. They introduce an element of independence to the Board and contribute to the development of the Group's strategy and policies by providing their independent, constructive and informed opinions. 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 each of Gao Hui, Qiao Jun and Chen Jianguo, being the independent non-executive Directors, as required under Rule 3.13 of the Listing Rules, and considered that they have satisfied the independence criteria set out in Rule 3.13 of the Listing Rules.

In accordance with the Bye-laws of the Company, all Directors appointed by the Board to fill a casual vacancy or as an addition to the existing Board shall hold office until the conclusion of the next following general meeting of the Company subsequent to their appointments and shall then be eligible for re-election. Each Board member is appointed for a fixed term of three years according to the respective service contract or letter of appointment and shall be subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

The members of the Board and the Chief Executive Officer do not have any relationship (including financial, business, family and other material/related relationships) with each other as required to be disclosed according to Appendix 16 and Appendix 23 to the Listing Rules.

The Company has maintained appropriate insurance coverage for Directors' and executive officers' liabilities arising from the Group's business. The coverage is reviewed by the management on an annual basis.

During the Review Year, the Board held four regular meetings at approximately quarterly intervals to discuss overall strategy as well as operations and financial performance of the Group. It also held several ad hoc meetings as and when required. The attendance of the regular Board meetings and the Board committee meetings during the Review Year are as follows:

	Number of regular Board meeting* and the Board committee meetings attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Zhu Yicai *(Chairman)*	4/4	N/A	2/2	1/1
Yu Zhangli *(Chief Executive Officer, appointed as the Chief Executive Officer on 9 March 2012)*	4/4	N/A	N/A	N/A
Zhu Yiliang *(Chief Executive Officer, ceased to be the Chief Executive Officer on 9 March 2012)*	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
Non-executive Directors				
Jiao Shuge *(alias* Jiao Zhen*)*	4/4	5/5	N/A	N/A
Wang Kaitian	4/4	N/A	N/A	N/A
Li Chenghua	4/4	N/A	N/A	N/A
Independent non-executive Directors				
Gao Hui	4/4	5/5	2/2	1/1
Qiao Jun	4/4	N/A	2/2	N/A
Chen Jianguo	4/4	5/5	N/A	1/1

* Ad hoc meetings are not included

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with defined terms of reference in line with the CG Code 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 when appropriate and upon request. Details of these Board committees, including their compositions, major responsibilities and functions, and work performed during the Review Year are set out in the table below:

	Audit Committee	**Remuneration Committee**	**Nomination Committee**
Committee members	Gao Hui* *(Chairman)* Jiao Shuge# Chen Jianguo*	Qiao Jun* *(Chairman)* Gao Hui* Zhu Yicai+	Chen Jianguo* *(Chairman)* Gao Hui* Zhu Yicai+
Major responsibilities and functions	• To serve as a focal point for communication among the Directors, the external auditors and the management in connection with its duties relating 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 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 the Board vacancies as and when they arise • To assess the independence of the 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 management 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 their remuneration and terms of engagement • 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 remuneration policy and remuneration for the Directors and recommended adjustment thereto • Reviewed and recommended on the grant of share options to certain executive Directors	• Reviewed and recommended the structure, size and composition of the Board • Reviewed the performance of the independent non-executive Directors and non-executive Directors • Reviewed the independence of the independent non-executive Directors • Reviewed and recommended on the suitability for the re-appointment of the retiring Directors at the annual general meeting

* *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 who have confirmed that they have 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 or Chief Executive Officer of the Company about its proposals relating to the remuneration of the Directors. The remuneration structure for the executive Directors consists of two key elements, fixed salary and discretionary incentive bonus. Fixed salary and other allowances are determined by reference to the remuneration benchmark in the industry and the prevailing market conditions. The discretionary incentive bonus, which comprises cash 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 adopts certain criteria and procedures in the selection and nomination of new Directors. The major criteria include professional background, in particular experience in the Group's industry, recommendations from the management team and other knowledgeable individuals. The Nomination Committee shortlists the suitable candidates and submits 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 2011 are as follows:

Services provided	**Fees**
	HK$'000
2011 Annual audit	6,186
Non-audit services*	1,383
Total	7,569

* *Non-audit services mainly consist of taxation services and interim results review.*

Internal Controls and Risk Management

The Board acknowledges that it is responsible for maintaining a sound internal control system to safeguard the shareholders' interest. The Group's internal control system has been established with an objective to reasonably assure 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 properly, and, where appropriate, the relevant laws and regulations and best practices are complied with.

The Board has delegated to the Audit Committee the responsibilities of reviewing the effectiveness of the Group's internal control system. The Audit Committee, with the assistance of the Group's Internal Audit Department, reviews the effectiveness of the Group's internal control system, including financial, operational and compliance controls, and risk management functions. The Group's Internal Audit Department, manned with qualified and experienced staff, carries out internal audit according to the internal audit plan reviewed and approved by the Audit Committee, and reports its audit findings and recommended remedial actions to the Audit Committee directly.

The Audit Committee reviews the reports submitted by the Internal Audit Department and issues relating to internal controls of the Group, evaluates the effectiveness of the Group's internal control system, which is then discussed and evaluated by the Board periodically every year.

During the Review Year, the Internal Audit Department evaluated various material internal control aspects, including financial, operational and compliance controls with an aim of minimizing the overall business and operational risks of the Group. It identified key risk areas and developed appropriate control measures and management actions for improvement. Crisis management procedures were developed in order to respond swiftly and positively to any sudden event that may affect consumers' confidence in the Group. Internal control reports were submitted to the Audit Committee for review and the audit findings and recommendations therein were discussed at the Audit Committee meetings and Board meetings.

During the Review Year, the Board, with the assistance of the Audit Committee and the Internal Audit Department, reviewed the effectiveness of the internal controls of the Group including financial, operational and compliance controls, and risk management functions, 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 financial statements of the Group are prepared in accordance with the statutory requirements and the 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 responsibility statement of the auditors of the Company in connection with the financial statements of the Group is set out in the Independent Auditors' Report on pages 37 to 38 of this annual report.

Investor Relations and Communication with Shareholders

The Company aims at providing its shareholders and potential investors with high standards of disclosure and financial transparency. The Investor Relations Department of the Company is responsible for handling investor relations matters. During the Review Year, the Company held press conferences for annual and interim results announcements as well as one-on-one and group meetings with analysts and senior representatives from renowned fund management companies, participated in large investor forums in places including Mainland China, Hong Kong, the United Kingdom, the United States, Canada, Europe, Singapore and Macau, and organised site visits for shareholders and institutional investors to its manufacturing facilities in Mainland China. The Company also maintained close connection with international investors through frequent teleconferences.

The Company makes use of various communication channels to keep its shareholders and potential investors abreast of the Group's business and the latest development, such as to publish annual and interim reports, circulars to shareholders and announcements in a timely manner in accordance with the requirements of the Listing Rules. These publications are also available on the websites of the Company and the Hong Kong Stock Exchange. Annual general meeting is also one of the principal channels to communicate with the shareholders. In addition, webcasts launched on the Company's website (www.yurun.com.hk) also allow shareholders and potential investors to get the full results announcement and presentations online and to obtain the relevant slide presentations. The Company's investor relations webpage is regularly improved and refurbished so as to include all key information such as corporate calendar, public announcements, stock price information, operation statistics, slide presentations, financial reports, etc. The Group believes that its proactive communications with the investors can help enhancing corporate transparency and the Company's potential and actual value can be better communicated with 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 (together the "Group") set out on pages 39 to 107, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 issued 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 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

9 March 2012

Consolidated Balance Sheet

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Property, plant and equipment	16	**12,635,472**	8,037,446
Investment properties	17	**214,463**	215,862
Lease prepayments	18	**3,281,131**	2,159,309
Goodwill	20	**93,847**	90,054
Interest in an associate	21	**5,381**	2,466
Interest in a jointly controlled entity	22	**24,069**	23,204
Non-current prepayments	23	**852,209**	952,867
Deferred tax assets	24	**22,654**	20,455
		17,129,226	11,501,663
Current assets			
Inventories	25	**1,453,415**	1,268,316
Other investments	26	**–**	1,184
Current portion of lease prepayments	18	**71,785**	47,281
Trade and other receivables	27	**1,466,105**	1,189,686
Income tax recoverable	10	**20,269**	1,233
Pledged deposits	29, 31	**178,735**	227,655
Time deposits		**90,866**	151,280
Cash and cash equivalents	28	**5,068,812**	5,972,385
		8,349,987	8,859,020
Current liabilities			
Bank loans	29	**5,141,227**	3,151,495
Finance lease liabilities	30	**562**	516
Trade and other payables	31	**3,014,529**	1,817,121
Income tax payable	10	**33,500**	29,559
		8,189,818	4,998,691
Net current assets		**160,169**	3,860,329
Total assets less current liabilities		**17,289,395**	15,361,992

Consolidated Balance Sheet

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current liabilities			
Bank loans	29	**784,798**	529,798
Finance lease liabilities	30	**177,539**	170,869
Deferred tax liabilities	24	**155,311**	178,827
		1,117,648	879,494
NET ASSETS		**16,171,747**	14,482,498
EQUITY			
Share capital	33	**182,276**	181,116
Reserves	34	**15,926,506**	14,255,593
Total equity attributable to equity holders of the Company		**16,108,782**	14,436,709
Non-controlling interests		**62,965**	45,789
TOTAL EQUITY		**16,171,747**	14,482,498

Approved and authorised for issue by the Board of Directors on 9 March 2012.

Zhu Yicai
Director

Yu Zhangli
Director

The notes on pages 47 to 107 are an integral part of these financial statements.

Balance Sheet

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current asset			
Investments in subsidiaries	19	**709,847**	709,847
Current assets			
Other receivables	27	**468**	467
Amounts due from subsidiaries		**7,600,658**	7,430,387
Cash and cash equivalents	28	**59,502**	414,589
		7,660,628	7,845,443
Current liabilities			
Other payables	31	**9,377**	6,810
Bank loans	29	**496,512**	–
		505,889	6,810
Net current assets		**7,154,739**	7,838,633
Total assets less current liabilities		**7,864,586**	8,548,480
Non-current liability			
Bank loans	29	**–**	350,504
NET ASSETS		**7,864,586**	8,197,976
EQUITY			
Share capital	33	**182,276**	181,116
Reserves	34	**7,682,310**	8,016,860
TOTAL EQUITY		**7,864,586**	8,197,976

Approved and authorised for issue by the Board of Directors on 9 March 2012.

Zhu Yicai
Director

Yu Zhangli
Director

The notes on pages 47 to 107 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Turnover	6	**32,315,193**	21,472,747
Cost of sales		**(29,530,416)**	(18,375,204)
Gross profit		**2,784,777**	3,097,543
Other operating income	7	**703,312**	966,171
Distribution expenses		**(757,907)**	(626,710)
Administrative and other operating expenses		**(788,065)**	(463,080)
Results from operating activities		**1,942,117**	2,973,924
Finance income		**138,585**	121,544
Finance costs		**(174,816)**	(169,179)
Net finance costs	8(a)	**(36,231)**	(47,635)
Share of losses of associates (net of income tax)	21	**(299)**	(447)
Share of loss of a jointly controlled entity (net of income tax)	22	**(114)**	–
Profit before income tax	8	**1,905,473**	2,925,842
Income tax expense	9	**(99,532)**	(189,113)
Profit for the year		**1,805,941**	2,736,729
Attributable to:			
Equity holders of the Company		**1,799,088**	2,728,176
Non-controlling interests		**6,853**	8,553
Profit for the year		**1,805,941**	2,736,729
Earnings per share			
Basic	15(a)	**$0.989**	$1.565
Diluted	15(b)	**$0.985**	$1.551

The notes on pages 47 to 107 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Profit for the year		**1,805,941**	2,736,729
Other comprehensive income for the year (after reclassification adjustments)	14		
Foreign currency translation differences for foreign operations		**553,647**	438,973
Net movement in fair value of available-for-sale financial assets recognised during the year		**–**	(55)
		553,647	438,918
Total comprehensive income for the year		**2,359,588**	3,175,647
Attributable to:			
Equity holders of the Company		**2,350,473**	3,165,400
Non-controlling interests		**9,115**	10,247
Total comprehensive income for the year		**2,359,588**	3,175,647

The notes on pages 47 to 107 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company										
	Note	Share capital (Note 33) $'000	Share premium (Note 34(b)) $'000	Capital surplus (Note 34(c)) $'000	Merger reserve (Note 34(d)) $'000	PRC statutory reserves (Note 34(e)) $'000	Fair value reserve (Note 34(f)) $'000	Exchange reserve (Note 34(g)) $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
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	33(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	33(a)	94	8,277	–	–	–	–	–	(1,381)	6,990	–	6,990
Equity-settled share-based payments	32	–	–	–	–	–	–	–	3,687	3,687	–	3,687
Transfer to reserves		–	–	–	–	176,477	–	–	(176,477)	–	–	–
Dividends approved and paid during the year	34(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
At 1 January 2011		**181,116**	**7,697,617**	**3,887**	**(112,202)**	**602,517**	**-**	**928,706**	**5,135,068**	**14,436,709**	**45,789**	**14,482,498**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,799,088**	**1,799,088**	**6,853**	**1,805,941**
Total other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**551,385**	**-**	**551,385**	**2,262**	**553,647**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**551,385**	**1,799,088**	**2,350,473**	**9,115**	**2,359,588**
Purchase of own shares	33(a)											
– par value paid		**(180)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(180)**	**-**	**(180)**
– premium paid		**-**	**(14,067)**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,067)**	**-**	**(14,067)**
Capital contributions from non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,571**	**9,571**
Shares issued under share option scheme	33(a)	**1,340**	**118,271**	**-**	**-**	**-**	**-**	**-**	**(19,655)**	**99,956**	**-**	**99,956**
Equity-settled share-based payments	32	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**177**	**177**	**-**	**177**
Transfer to reserves		**-**	**-**	**-**	**-**	**168,297**	**-**	**-**	**(168,297)**	**-**	**-**	**-**
Dividends approved and paid during the year	34(j)	**-**	**(401,403)**	**-**	**-**	**-**	**-**	**-**	**(362,883)**	**(764,286)**	**(1,510)**	**(765,796)**
At 31 December 2011		**182,276**	**7,400,418**	**3,887**	**(112,202)**	**770,814**	**-**	**1,480,091**	**6,383,498**	**16,108,782**	**62,965**	**16,171,747**

The notes on pages 47 to 107 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Profit for the year		**1,805,941**	2,736,729
Adjustments for:			
Depreciation		**350,807**	248,706
Amortisation of lease prepayments		**59,352**	38,309
Impairment losses/(reversal of impairment losses) on trade and other receivables		**675**	(8,779)
Interest income		**(40,156)**	(35,959)
Investment income from available-for-sale financial assets		**(23,870)**	(116)
Finance costs		**162,549**	150,824
Share of losses of associates		**299**	447
Share of loss of a jointly controlled entity		**114**	–
Gain on disposal of an associate	21	**(75)**	–
Loss on disposal of property, plant and equipment		**6,849**	5,290
Recognition of negative goodwill		**–**	(186,137)
Equity-settled share-based payment transactions		**177**	3,687
Unrealised foreign exchange gain		**(72,132)**	(47,174)
Income tax expense		**99,532**	189,113
Impairment loss on available-for-sale financial assets	26	**1,184**	–
Change in fair value of financial derivatives		**11,083**	(26,817)
Operating profit before change in working capital		**2,362,329**	3,068,123
Change in inventories		**(128,624)**	(285,072)
Change in trade and other receivables		**(212,673)**	(186,245)
Change in trade and other payables		**647,580**	672,796
Cash generated from operating activities		**2,668,612**	3,269,602
Finance costs paid		**(249,700)**	(143,681)
Income tax paid		**(147,117)**	(139,570)
Net cash from operating activities		**2,271,795**	2,986,351

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**8,892**	2,394
Proceeds from sale of held-to-maturity investments		**–**	295,528
Proceeds from sale of available-for-sale financial assets		**627,735**	5,885
Proceeds from disposal of an associate	21	**2,469**	–
Interest received		**40,156**	28,882
Capital contributions from non-controlling interests		**9,571**	6,495
Acquisition of property, plant and equipment		**(4,163,819)**	(2,831,444)
Payments for lease prepayments		**(793,410)**	(615,379)
Business acquisitions, net of cash acquired		**–**	(9,159)
Payment for investment in a jointly controlled entity		**–**	(23,204)
Payment for investment in an associate	21	**(5,418)**	–
Acquisition of held-to-maturity investments		**–**	(288,451)
Acquisition of available-for-sale financial assets		**(603,865)**	–
Changes in time deposits		**65,396**	(70,769)
Net cash used in investing activities		**(4,812,293)**	(3,499,222)
Cash flows from financing activities			
Net proceeds from issuance of new shares		**99,956**	3,515,244
Payments for repurchase of shares		**(14,247)**	–
Proceeds from bank loans		**6,577,779**	5,394,453
Repayments of bank loans		**(4,516,804)**	(4,975,199)
Capital element of finance lease rentals paid		**(527)**	(481)
Interest element of finance lease rentals paid		**(6,429)**	(6,164)
Changes in pledged deposits		**57,310**	548,977
Dividends paid		**(765,796)**	(618,754)
Net cash from financing activities		**1,431,242**	3,858,076
Net (decrease)/increase in cash and cash equivalents		**(1,109,256)**	3,345,205
Cash and cash equivalents at 1 January		**5,972,385**	2,465,128
Effect of exchange rate fluctuations on cash held		**205,683**	162,052
Cash and cash equivalents at 31 December	28	**5,068,812**	5,972,385

The notes on pages 47 to 107 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 HM 11, Bermuda.

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 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 approved and authorised for issue by the Board of Directors on 9 March 2012.

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 International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued 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 (see accounting policy 3(d)(iv)); and

– available-for-sale financial assets (see accounting policy 3(d)(i)).

(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 except when otherwise indicated.

(d) Use of estimates and judgements

The preparation of the consolidated 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 39.

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 3(a), which addresses changes in accounting policies.

(a) Change in accounting policies

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

– IAS 24 (revised 2009), *Related party disclosures*

– Improvements to IFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The impacts of these developments are discussed below:

– IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

– *Improvements to IFRSs (2010)* omnibus standard introduce a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 35 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous years.

(b) Basis of consolidation

(i) Business combinations

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.

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 pre-existing equity interest in the acquiree; less

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

3 Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

(i) Business combinations (continued)

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.

Transaction costs, 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 measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then 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.

(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 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 holders 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 holders 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.

3 Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

(ii) Subsidiaries and non-controlling interests (continued)

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 (d)), or when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see accounting policy (b)(iii)).

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

(iii) Investment in 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.

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 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 joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of 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.

3 Significant Accounting Policies (continued)

(c) 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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. Non-monetary items in foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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.

(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 foreign operations 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.

(d) 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 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.

3 Significant Accounting Policies (continued)

(d) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Financial assets and liabilities are offset and the net amount presented in the 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 assets into the following categories: financial assets at fair value through profit or loss, 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 (k)).

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 (k)).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy (k)) and foreign currency differences on available-for-sale debt instruments (see accounting policy (c)(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.

3 Significant Accounting Policies (continued)

(d) Financial instruments (continued)

(ii) Non-derivative financial liabilities

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 expired.

Non-derivative financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity.

(iv) Derivative financial instruments

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

(e) 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 (k)). 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; an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and capitalised borrowing costs (see accounting policy (p)).

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3 Significant Accounting Policies (continued)

(e) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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.

Any gain and loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. 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.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years or significant items of property, plant and equipment are as follows:

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

Depreciation methods, useful lives and residual values are reassessed at each balance sheet date and adjusted if appropriate.

(iv) Construction in progress

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

3 Significant Accounting Policies (continued)

(f) Goodwill

Goodwill arises upon the acquisition of subsidiaries. For the measurement of goodwill at initial recognition, see accounting policy (b)(i).

Goodwill is measured at cost less accumulated impairment losses (see accounting policy (k)). In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the associate as a whole.

(g) 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 (k)).

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

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

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

(h) Leased assets

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

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

(i) 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 (k)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

3 Significant Accounting Policies (continued)

(j) 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.

(k) 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 there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes 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, 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.

Financial assets measured at amortised cost

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

In assessing collective impairment, the Group uses historical trends of the probability of default, the 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. When an event occurring at the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant Accounting Policies (continued)

(k) Impairment (continued)

(i) Non-derivative financial assets (continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses 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 recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. 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 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 CGUs. Subject to an operating segment ceiling test, 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.

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. For other assets, 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)

(l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(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 has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(iii) Equity-settled share-based payment transactions

The grant-date fair value of equity-settled 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 performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For equity-settled share-based payment awards with non-vesting conditions, the grant date fair value of the equity-settled share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(m) 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.

(n) 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)

(n) 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 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.

(o) Lease payments

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. 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.

(p) Finance income and costs

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets and fair value gains on financial instruments. 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 fair value losses of financial derivatives.

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. Other borrowing costs are expensed in the period in which they are incurred.

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.

3 Significant Accounting Policies (continued)

(q) 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.

(r) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax is 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

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, using tax rates enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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)

(s) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 reflects adjustments for physical deterioration as well as functional and economic obsolescence.

(b) 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.

(c) 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).

(d) 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.

(e) 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.

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.

4 Determination of Fair Values (continued)

(f) Equity-settled share-based payment transactions

The fair value of the employee share options is measured using the binomial model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on Exchange Fund Notes). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5 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 chief operating decision maker ("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.

(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 and a jointly controlled entity 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 and a jointly controlled entity for the year.

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.

Segment assets and liabilities of the Group are not reported to the Group's CODM regularly. As a result, reportable segment assets and liabilities have not been presented in these financial statements.

5 Operating Segments (continued)

(a) Segment results (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	Chilled and frozen meat		Processed meat products		Total	
	2011	2010	**2011**	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenues	**28,541,508**	17,652,018	**3,773,685**	3,820,729	**32,315,193**	21,472,747
Inter-segment revenue	**1,044,961**	1,181,126	**67,294**	–	**1,112,255**	1,181,126
Reportable segment revenue	**29,586,469**	18,833,144	**3,840,979**	3,820,729	**33,427,448**	22,653,873
Depreciation and amortisation	**(332,535)**	(218,739)	**(73,069)**	(67,692)	**(405,604)**	(286,431)
Government subsidies	**593,362**	686,698	**60,210**	26,585	**653,572**	713,283
Reportable segment profit	**1,621,257**	2,323,534	**367,157**	690,194	**1,988,414**	3,013,728
Income tax expenses	**(4,116)**	(12,524)	**(95,124)**	(176,068)	**(99,240)**	(188,592)

(b) Reconciliations of reportable segment revenue and profit

	2011	2010
	$'000	$'000
Revenue		
Total revenue from reportable segments	**33,427,448**	22,653,873
Elimination of inter-segment revenue	**(1,112,255)**	(1,181,126)
Consolidated revenue	**32,315,193**	21,472,747
Profit		
Reportable segment profit	**1,988,414**	3,013,728
Elimination of inter-segment profits	**10,881**	(5,791)
Reportable segment profit derived from the Group's external customers	**1,999,295**	3,007,937
Share of losses of associates	**(299)**	(447)
Share of loss of a jointly controlled entity	**(114)**	–
Net finance costs	**(36,231)**	(47,635)
Income tax expense	**(99,532)**	(189,113)
Unallocated head office and corporate expenses	**(57,178)**	(34,013)
Consolidated profit for the year	**1,805,941**	2,736,729

6 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.

7 Other Operating Income

	2011	2010
	$'000	$'000
Government subsidies	**653,572**	713,283
Recognition of negative goodwill arising on business combinations	**–**	186,137
Rental income	**24,559**	27,032
Sales of scrap	**5,230**	4,177
Sundry income	**19,951**	35,542
	703,312	966,171

8 Profit Before Income Tax

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

(a) Net finance costs

	2011	2010
	$'000	$'000
Interest on bank loans wholly repayable within five years	**248,628**	158,958
Interest on bank loans not wholly repayable within five years	**4,660**	–
Less: Interest expense capitalised into property, plant and equipment under development*	**(105,646)**	(18,355)
	147,642	140,603
Bank charges	**8,478**	4,057
Interest on lease obligations	**6,429**	6,164
Net foreign exchange gain	**(74,559)**	(40,297)
Interest income on held-to-maturity investments	**–**	(7,077)
Interest income from bank deposits	**(40,156)**	(28,882)
Investment income from available-for-sale financial assets	**(23,870)**	(116)
Impairment loss on available-for-sale financial assets	**1,184**	–
Change in fair value of financial derivatives	**11,083**	(26,817)
	36,231	47,635

* The borrowing costs have been capitalised at a rate of 5.53% per annum (2010: 5.01%).

8 Profit Before Income Tax (continued)

(b) Personnel expenses

	2011 **$'000**	2010 $'000
Salaries, wages and other benefits	**798,456**	565,184
Contributions to defined contribution pension schemes	**53,006**	29,331
Equity-settled share-based payment transactions	**177**	3,687
	851,639	598,202

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% (2010: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2011.

The Group also 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.

(c) Other items

	2011 **$'000**	2010 $'000
Cost of inventories#	**29,530,416**	18,375,204
Impairment losses on trade and other receivables	**1,937**	759
Reversal of impairment losses on trade and other receivables	**(1,262)**	(9,538)
Depreciation	**350,807**	248,706
Loss on disposal of property, plant and equipment	**6,849**	5,290
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**15,264**	12,267
– contingent rent	**5,473**	5,646
Amortisation of lease prepayments	**59,352**	38,309
Research and development expenses (other than amortisation costs)	**22,869**	14,027
Auditors' remuneration		
– audit services	**6,186**	5,472
– other services	**1,383**	1,092

Cost of inventories includes $595,340,000 (2010: $469,097,000) 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 8(b) for each of these types of expenses.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Income Tax Expense

Income tax expense in the consolidated income statement represents:

	Note	2011 $'000	2010 $'000
Current tax expense			
Current year	10	**120,927**	150,092
Under/(over)-provision in respect of prior years	10	**10,305**	(2,154)
		131,232	147,938
Deferred tax expense			
Origination and reversal of temporary differences	24(b)	**(31,700)**	41,175
Income tax expense in the consolidated income statement		**99,532**	189,113

(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 2011 and 2010.

(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 2011 and 2010, 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 2011 and 2010.

(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. Xinjiang Yurun Food Co., Ltd. is liable to PRC enterprise income tax at a rate of 25% starting from 2011.

9 Income Tax Expense (continued)

(d) Under the PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement between the PRC and Hong Kong, the investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

As at 31 December 2011, temporary differences relating to the undistributed profits of subsidiaries amounted to $6,399,094,000 (2010: $4,631,484,000). Deferred tax liabilities of $164,643,000 (2010: $54,118,000) in respect of the undistributed profits of $3,292,866,000 (2010: $1,082,365,000) were not recognised as at 31 December 2011 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 as a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC enterprise income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

Reconciliation of effective tax rate

	2011		2010	
	$'000	**%**	$'000	%
Profit before income tax	**1,905,473**		2,925,842	
Income tax using the PRC enterprise income tax rate of 25% (2010: 25%)	**476,368**	**25.0**	731,461	25.0
Effect of tax rate differential	**17,613**	**0.9**	9,282	0.3
Non-taxable income	**(198,599)**	**(10.4)**	(243,223)	(8.3)
Non-deductible expenses	**11,067**	**0.6**	41,567	1.4
Under/(over) – provision in respect of prior years	**10,305**	**0.5**	(2,154)	(0.1)
Withholding tax on profits from PRC subsidiaries	**21,178**	**1.1**	39,229	1.4
Recognition of tax expense in relation to interest income from PRC subsidiaries	**292**	**0.0**	522	0.0
Effect of tax losses not recognised	**54**	**0.0**	21	0.0
Effect of tax concessions	**(238,746)**	**(12.5)**	(387,592)	(13.2)
Income tax expense	**99,532**	**5.2**	189,113	6.5

10 Income Tax Recoverable/(Payables)

Current taxation in the consolidated balance sheet represents:

The Group

	2011 **$'000**	2010 $'000
At beginning of the year	**(28,326)**	(18,937)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	**(120,927)**	(150,092)
(Under)/over-provision in respect of prior years	**(10,305)**	2,154
PRC income tax and withholding tax paid	**147,117**	139,570
Effect of movements in exchange rates	**(790)**	(1,021)
At end of the year	**(13,231)**	(28,326)
Represented by:		
Income tax recoverable	**20,269**	1,233
Income tax payable	**(33,500)**	(29,559)
	(13,231)	(28,326)

11 Directors' Remuneration

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

	2011						
	Fees	Salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Sub-total	Equity-settled share-based payments (Note)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Zhu Yicai	–	2,633	32	–	2,665	–	2,665
Yu Zhangli	–	1,074	17	–	1,091	–	1,091
Zhu Yiliang	–	1,163	32	–	1,195	–	1,195
Feng Kuande	–	749	22	–	771	–	771
Ge Yuqi	–	1,064	32	–	1,096	–	1,096
Non-executive directors							
Jiao Shuge (alias Jiao Zhen)	–	–	–	–	–	–	–
Wang Kaitian	133	–	–	–	133	–	133
Li Chenghua	–	–	–	–	–	–	–
Independent non-executive directors							
Gao Hui	200	–	–	–	200	–	200
Qiao Jun	133	–	–	–	133	–	133
Chen Jianguo	133	–	–	–	133	–	133
Total	599	6,683	135	–	7,417	–	7,417

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Directors' Remuneration (continued)

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

	2010						
	Fees	Salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Sub-total	Equity-settled share-based payments (Note)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Zhu Yicai	–	2,495	42	–	2,537	–	2,537
Yu Zhangli	–	777	20	–	797	39	836
Zhu Yiliang	–	899	42	–	941	650	1,591
Feng Kuande	–	577	28	–	605	650	1,255
Ge Yuqi	–	805	42	–	847	650	1,497
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

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 are measured according to the Group's accounting policies for equity-settled share-based payment transactions as set out in note 3(l)(iii).

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 32.

Li Chenghua has agreed to waive all of his director emoluments under the existing service agreement for the years ended 31 December 2010 and 2011. Feng Kuande has agreed to waive part of his director emoluments under the existing service agreement for the year ended 31 December 2010.

12 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2010: three) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining two (2010: two) individuals are as follows:

	2011 **$'000**	2010 $'000
Salaries and other emoluments	**15,806**	7,345
Contributions to retirement benefit schemes	**24**	24
Equity-settled share-based payments	**–**	650
	15,830	8,019

The emoluments of the two (2010: two) individuals with the highest emoluments are within the following bands:

	2011 **Number of individuals**	2010 Number of individuals
$3,500,001 - $4,000,000	**–**	1
$4,000,001 - $4,500,000	**–**	1
$6,500,001 - $7,000,000	**1**	–
$9,000,001 - $9,500,000	**1**	–

13 Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company includes a profit of $345,010,000 (2010: $608,037,000) which has been dealt with in the financial statements of the Company.

14 Other Comprehensive Income

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2011 and 2010.

15 Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity holders of the Company for the year of $1,799,088,000 (2010: $2,728,176,000) and the weighted average number of 1,818,267,000 (2010: 1,743,531,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2011	2010
	'000	'000
Issued ordinary shares at 1 January	**1,811,157**	1,673,220
Effect of shares repurchased (note 33(a)(ii))	**(395)**	–
Effect of new shares issued (notes 33(a)(i) and (iii))	**7,505**	70,311
Weighted average number of ordinary shares at 31 December	**1,818,267**	1,743,531

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity holders of the Company for the year of $1,799,088,000 (2010: $2,728,176,000) and the weighted average number of 1,826,693,000 (2010: 1,758,691,000) shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2011	2010
	'000	'000
Weighted average number of ordinary shares at 31 December	**1,818,267**	1,743,531
Effect of deemed issue of shares under the Company's share option scheme (note 32)	**8,426**	15,160
Weighted average number of ordinary shares (diluted) at 31 December	**1,826,693**	1,758,691

The share options granted during the year ended 31 December 2011 were not included in the calculation of diluted earnings per share because they are anti-dilutive.

16 Property, Plant and Equipment

The Group

	Properties $'000	Machinery and equipment $'000	Transportation vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Cost:						
At 1 January 2010	3,629,134	1,591,433	70,282	67,545	341,309	5,699,703
Acquisitions through business combinations	125,041	55,703	–	–	–	180,744
Other additions	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
At 1 January 2011	**4,696,557**	**2,136,935**	**82,186**	**95,364**	**1,927,682**	**8,938,724**
Other additions	**814,244**	**423,022**	**59,225**	**48,493**	**3,183,629**	**4,528,613**
Transfers	**716,795**	**164,220**	**101,149**	**16,642**	**(998,806)**	**–**
Reclassification from investment properties (note 17)	**6,164**	**–**	**–**	**–**	**–**	**6,164**
Disposals	**(7,181)**	**(13,359)**	**(5,291)**	**(1,822)**	**–**	**(27,653)**
Effect of movements in exchange rates	**232,008**	**102,909**	**3,714**	**5,354**	**126,960**	**470,945**
At 31 December 2011	**6,458,587**	**2,813,727**	**240,983**	**164,031**	**4,239,465**	**13,916,793**
Accumulated depreciation:						
At 1 January 2010	293,842	282,005	26,869	31,604	–	634,320
Depreciation 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
At 1 January 2011	**424,831**	**401,649**	**31,293**	**43,505**	**–**	**901,278**
Depreciation for the year	**163,792**	**149,443**	**11,267**	**19,058**	**–**	**343,560**
Reclassification from investment properties (note 17)	**3,098**	**–**	**–**	**–**	**–**	**3,098**
Disposals	**(1,035)**	**(5,952)**	**(3,505)**	**(1,420)**	**–**	**(11,912)**
Effect of movements in exchange rates	**21,585**	**20,116**	**1,400**	**2,196**	**–**	**45,297**
At 31 December 2011	**612,271**	**565,256**	**40,455**	**63,339**	**–**	**1,281,321**
Carrying amounts:						
At 31 December 2011	**5,846,316**	**2,248,471**	**200,528**	**100,692**	**4,239,465**	**12,635,472**
At 31 December 2010	4,271,726	1,735,286	50,893	51,859	1,927,682	8,037,446

16 Property, Plant and Equipment (continued)

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of $1,538,089,000 (2010: $2,139,978,000) at 31 December 2011 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 2011.

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") 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.

At 31 December 2011, the carrying amount of leased property, plant and equipment was $128,807,000 (2010: $131,032,000).

Security

At 31 December 2011, certain properties and construction in progress with carrying amounts of $45,119,000 (2010: $44,763,000) and $82,455,000 (2010: $Nil) respectively were pledged against bank loans (see note 29).

17 Investment Properties

The Group

	2011 $'000	2010 $'000
Cost:		
At 1 January	**240,579**	230,794
Reclassification to property, plant and equipment (note 16)	**(6,164)**	–
Effect of movements in exchange rates	**10,050**	9,785
At 31 December	**244,465**	240,579
Accumulated depreciation:		
At 1 January	**24,717**	16,701
Charge for the year	**7,247**	7,123
Reclassification to property, plant and equipment (note 16)	**(3,098)**	–
Effect of movements in exchange rates	**1,136**	893
At 31 December	**30,002**	24,717
Carrying amounts:		
At 31 December	**214,463**	215,862

Investment properties comprise a number of buildings that are leased to third parties. The investment properties of the Group mainly 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.

One property has been transferred from investment properties to property, plant and equipment (see note 16), as the building will be used by the Group.

The aggregate fair value of the investment properties at 31 December 2011 was approximately $337,032,000 (2010: $313,633,000). 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.

During the year, $23,563,000 (2010: $20,199,000) was recognised as rental income in profit or loss. Direct operating expenses (including repairs and maintenance) arising from the investment properties recognised during the year amounted to $10,966,000 (2010: $10,370,000).

18 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.

At 31 December 2011, land use rights with a carrying amount of $291,856,000 (2010: $31,953,000) were pledged against bank loans (see note 29).

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19 Investments in Subsidiaries

The Company

	2011 **$'000**	2010 $'000
Unlisted shares, at cost	**709,847**	709,847

Particulars of principal subsidiaries are set out in Appendix 1 on pages 106 to 107.

20 Goodwill

The Group

	2011 **$'000**	2010 $'000
At 1 January	**90,054**	86,374
Effect of movements in exchange rates	**3,793**	3,680
At 31 December	**93,847**	90,054

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 5.

Goodwill is 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

	2011 **%**	2010 %
Gross margin	**8**	9
Growth rate	**13**	15
Discount rate	**18**	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.

21 Interest in an Associate

The Group

	2011	2010
	$'000	$'000
Share of net assets	**5,381**	2,466

In January 2011, the Group paid $5,418,000 to subscribe to a 45% equity interest in Runyang Biotechnology Donghai Company Limited* ("Runyang Biotechnology") (潤揚生物科技東海有限公司), a domestic limited liability company established in the PRC.

Details of the associate at 31 December 2011 are as follows:

Name of associate	**Place of establishment and operation**	**Registered capital**	**Attributable equity interest indirectly held by the Group**	**Principal activities**
Runyang Biotechnology	The PRC	RMB10,000,000	45%	Production and sales of pharmaceutical products

In March 2011, the Group disposed all its interest in Itoham Foods Beijing Co., Ltd.* ("Itoham") (伊藤食品(北京)有限公司) to a third party at a consideration of $2,469,000. A gain on disposal of $75,000 was derived.

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

Summary financial information on the associates:

	Assets	**Liabilities**	**Equity**	**Revenue**	**Losses**
	$'000	$'000	$'000	$'000	$'000
2011					
100%	**12,022**	**65**	**11,957**	**7,362**	**(905)**
Group's effective interest	**5,410**	**29**	**5,381**	**1,841**	**(299)**
2010					
100%	13,032	3,169	9,863	19,790	(1,788)
Group's effective interest	3,258	792	2,466	4,948	(447)

22 Interest in a Jointly Controlled Entity

The Group

	2011 $'000	2010 $'000
Share of net assets	**24,069**	23,204

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	The 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 of Hubei Runhong and the remaining voting rights are held by another party. Accordingly, no single party is able to control Hubei Runhong.

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

The Group

	2011 $'000	2010 $'000
Non-current assets	**10,008**	–
Current assets	**17,190**	23,204
Non-current liabilities	**–**	–
Current liabilities	**(3,129)**	–
Net assets	**24,069**	23,204
Income	**270**	–
Expenses	**(384)**	–
Loss for the year	**(114)**	–

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

23 Non-current Prepayments

The Group

	2011 $'000	2010 $'000
Prepayments for acquisitions of land use rights	**523,684**	793,052
Prepayments for acquisitions of property, plant and equipment	**328,525**	159,815
	852,209	952,867

24 Deferred Tax Assets and Liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2011 are attributable to the following:

The Group

	Assets		Liabilities		Net	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Property, plant and equipment	**22,495**	20,369	**–**	–	**22,495**	20,369
Impairment losses on trade and other receivables	**159**	86	**–**	–	**159**	86
Withholding tax on interest income from PRC subsidiaries	**–**	–	**–**	(1,371)	**–**	(1,371)
Withholding tax on profits from PRC subsidiaries	**–**	–	**(155,311)**	(177,456)	**(155,311)**	(177,456)
Total deferred tax assets/ (liabilities)	**22,654**	20,455	**(155,311)**	(178,827)	**(132,657)**	(158,372)

24 Deferred Tax Assets and Liabilities (continued)

(b) Movements in temporary differences

Movements in temporary differences during the year are as follows:

The Group

	At 1 January 2010 $'000	Recognised in profit or loss $'000	Exchange difference $'000	At 31 December 2010 $'000	**Recognised in profit or loss $'000**	**Exchange difference $'000**	**At 31 December 2011 $'000**
Property, plant and equipment	18,924	626	819	20,369	**1,237**	**889**	**22,495**
Impairment losses on trade and other receivables	2,101	(2,050)	35	86	**67**	**6**	**159**
Withholding tax for interest payment from PRC subsidiaries	(849)	(522)	–	(1,371)	**1,371**	**-**	**-**
Withholding tax for dividends from PRC subsidiaries	(132,508)	(39,229)	(5,719)	(177,456)	**29,025**	**(6,880)**	**(155,311)**
Total	(112,332)	(41,175)	(4,865)	(158,372)	**31,700**	**(5,985)**	**(132,657)**

25 Inventories

The Group

	2011 $'000	2010 $'000
Raw materials	**337,951**	215,771
Work in progress	**185,212**	112,540
Finished goods	**930,252**	940,005
	1,453,415	1,268,316

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2011 $'000	2010 $'000
Carrying amount of inventories sold	**29,507,516**	18,375,204
Write down of inventories	**22,900**	–
	29,530,416	18,375,204

26 Other Investments

The Group

	2011 $'000	2010 $'000
Available-for-sale financial assets, unlisted	–	1,184

During the year ended 31 December 2011, management reassessed the recoverability of the Group's other investments and a provision for impairment loss of $1,184,000 (2010: $Nil) was recognised.

27 Trade and Other Receivables

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade receivables (note (a))	545,519	569,272	–	–
Bills receivable	12,018	27,596	–	–
Value-added tax recoverable	764,675	414,354	–	–
Deposits and prepayments	89,320	56,905	468	467
Derivative financial instruments (note 31)	–	23,576	–	–
Others	54,573	97,983	–	–
	1,466,105	1,189,686	468	467

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

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

27 Trade and Other Receivables (continued)

(a) Ageing analysis

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

The Group

	2011 $'000	2010 $'000
Within 30 days	**381,261**	391,064
31 days to 90 days	**123,795**	105,249
91 days to 180 days	**26,584**	72,286
Over 180 days	**13,879**	673
	545,519	569,272

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Special approval from senior management is required for extension of credit terms.

(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(k)(i)).

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

The Group

	2011 $'000	2010 $'000
At 1 January	**6,696**	15,065
Impairment losses recognised	**1,937**	759
Reversal of impairment losses on trade debtors	**(1,262)**	(9,538)
Uncollectable amounts written off	**(606)**	–
Effect of movements in exchange rate	**285**	410
At 31 December	**7,050**	6,696

At 31 December 2011, the Group's trade debtors of $7,050,000 (2010: $6,696,000) 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 $7,050,000 (2010: $6,696,000) were recognised.

27 Trade and Other Receivables (continued)

(c) Trade debtors that are not impaired

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

The Group

	2011 $'000	2010 $'000
Neither past due nor impaired	**474,496**	511,552
Less than 1 month past due	**55,156**	48,836
1 to 3 months past due	**8,111**	5,880
Over 3 months past due	**7,756**	3,004
	71,023	57,720
	545,519	569,272

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.

28 Cash and Cash Equivalents

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash at bank and in hand	**5,068,812**	5,972,385	**59,502**	414,589
Cash and cash equivalents in the cash flow statement	**5,068,812**	5,972,385		

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(Expressed in Hong Kong dollars unless otherwise indicated)

29 Bank Loans

The bank loans are repayable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Bank loans				
– Within one year or on demand	**5,141,227**	2,774,155	**496,512**	–
– After one but within two years	**196,200**	60,909	**–**	–
– After two but within five years	**533,070**	468,889	**–**	350,504
– After five years	**55,528**	–	**–**	–
Proceeds from discounted bills				
– Within one year	**–**	377,340	**–**	–
Total loans	**5,926,025**	3,681,293	**496,512**	350,504
Less: Loans due within one year classified as current liabilities	**(5,141,227)**	(3,151,495)	**(496,512)**	–
Non-current loans	**784,798**	529,798	**–**	350,504

Terms

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Unsecured bank loans denominated in RMB (note (i))				
– Variable interest rate at prevailing market rate	**2,194,246**	899,728	**–**	–
– Fixed interest rate at 4.82% to 6.89% (2010: 4.78% to 5.56%)	**2,388,944**	1,972,852	**–**	–
Unsecured bank loans denominated in HKD				
– Floating rate at Hong Kong Interbank Offered Rate + 1.70% (note (i))	**496,512**	350,504	**496,512**	350,504
Secured bank loans denominated in RMB				
– Variable interest rate at prevailing market rate (note (ii))	**729,825**	80,869	**–**	–
Secured bank loan denominated in USD				
– Floating rate at London Interbank Offered Rate + 3.20% (note (iii))	**116,498**	–	**–**	–
Proceeds from discounted bills denominated in RMB (note (iv))	**–**	377,340	**–**	–
	5,926,025	3,681,293	**496,512**	350,504

29 Bank Loans (continued)

Notes:

(i) Certain of the Group's bank loan facilities were subject to the fulfilment of covenants relating to the financial ratios and capital requirements, as are commonly found in lending arrangements with financial institutions. These financial ratios and capital requirements relate to the consolidated financial performance of the Group and financial performance of certain PRC subsidiaries of the Group. 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. At 31 December 2011, the Group could not fulfil a covenant imposed by a bank on a borrowing of $496,512,000. Accordingly, the loan was classified as current in the balance sheets as at 31 December 2011. The Group has obtained a one-time waiver letter from the bank on 8 March 2012.

Further details of the Group's management of liquidity risk are set out in note 35(b).

(ii) At 31 December 2011, the bank loans were secured by certain properties, construction in progress and land use rights with carrying amount of $45,119,000 (2010: $44,763,000), $82,455,000 (2010: $Nil) and $291,856,000 (2010:$31,953,000) respectively.

(iii) At 31 December 2011, the bank loan was secured by pledged deposits denominated in RMB amounting to $130,799,000 (2010: $Nil).

(iv) No bills were discounted as at 31 December 2011. At 31 December 2010, intragroup bills payable totalling $378,833,000 was secured by pledged deposits amounting to $161,004,000. The corresponding intragroup bills receivable totalling $378,833,000 was discounted with recourse. The proceeds from discounting are stated in the consolidated balance sheet as secured bank loans.

30 Finance Lease Liabilities

Finance lease liabilities are payable as follows:

The Group

	2011			2010		
	Total minimum lease payments $'000	**Interest expense relating to future periods $'000**	**Present value of the minimum lease payments $'000**	Total minimum lease payments $'000	Interest expense relating to future periods $'000	Present value of the minimum lease payments $'000
Within one year	**7,106**	**6,544**	**562**	6,818	6,302	516
After one but within two years	**7,106**	**6,518**	**588**	6,818	6,278	540
After two but within five years	**26,247**	**18,879**	**7,368**	25,755	18,681	7,074
More than five years	**251,916**	**82,333**	**169,583**	247,929	84,674	163,255
	285,269	**107,730**	**177,539**	280,502	109,633	170,869
Total finance lease obligations	**292,375**	**114,274**	**178,101**	287,320	115,935	171,385

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31 Trade and Other Payables

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade payables	**902,094**	636,899	**–**	–
Bills payable	**6,228**	–	**–**	–
Receipts in advance	**263,242**	216,885	**–**	–
Deposits from customers	**94,470**	75,078	**–**	–
Salary and welfare payables	**154,039**	119,554	**304**	–
Value-added tax payable	**1,029**	932	**–**	–
Payables for acquisitions of property, plant and equipment	**731,836**	273,766	**–**	–
Derivative financial instruments	**1,235**	–	**–**	–
Other payables and accruals	**860,356**	494,007	**9,073**	6,810
	3,014,529	1,817,121	**9,377**	6,810

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.

At 31 December 2011, the bills payable and the derivative financial instruments were secured by pledged deposits denominated in RMB amounting to $6,228,000 (2010: $Nil) and $41,708,000 (2010: $66,651,000) respectively.

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

The Group

	2011	2010
	$'000	$'000
Within 30 days	**774,476**	560,327
31 days to 90 days	**91,683**	50,414
91 days to 180 days	**21,487**	12,610
Over 180 days	**14,448**	13,548
	902,094	636,899

32 Equity-settled Share-based Payments

On 10 September 2005, the Group established a share option scheme that entitles qualified employees to purchase shares in the Company. On 10 November 2006 and 3 September 2011, the Group granted 40,250,000 options ("2006 Options") and 83,400,000 options ("2011 options") to qualified employees respectively. Each option gives the holders the right to subscribe for one ordinary share in the Company.

32 Equity-settled Share-based Payments (continued)

(a) Term and conditions of the grants are as follows:

The 2006 Options and 2011 Options have a contractual life of ten years. The 2006 Options and 2011 Options granted are subjected to a vesting scale in tranches of 25% each per annum starting from 2008 and 2012 after announcement of results for the previous year for 2006 Options and 2011 Options respectively and achievement of performance-based vesting condition. The option shall lapse on the date the grantee ceases to be an employee of the Group or the performance-based condition is not satisfied.

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

	2011		2010	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at 1 January	**$7.46**	**21,033**	$7.46	21,970
Exercised during the year	**$7.46**	**(13,399)**	$7.46	(937)
Granted during the year	**$18.04**	**83,400**	–	–
Outstanding at 31 December	**$17.15**	**91,034**	$7.46	21,033
Exercisable at 31 December	**$7.46**	**7,634**	$7.46	16,633

The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was $20.05 (2010: $25.55).

2006 Options and 2011 Options outstanding at 31 December 2011 had exercise price of $7.46 (2010: $7.46) and $18.04 (2010: $Nil) and the weighted average contractual lives of 4.86 (2010: 5.86) and 9.74 (2010: Nil) years respectively.

(c) Fair value of share options and assumptions

The fair value of services received in return for 2011 Options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the 2011 Options granted was measured based on a binomial model. Expectations of early exercise were incorporated into the binomial model.

Fair value of 2011 Options and assumptions

	2011
Fair value at measurement date	**$651,803,000**
Share price at grant date	**$18.04**
Exercise price	**$18.04**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial model)	**46.4%**
Option life (expressed as weighted average life used in the modelling under binomial model)	**10 years**
Expected dividends	**1.548%**
Risk-free interest rate (based on Exchange Fund Notes)	**1.725%**

32 Equity-settled Share-based Payments (continued)

(c) Fair value of share options and assumptions (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the 2011 Options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The Company estimated that the performance-based vesting condition of the 2011 Options would not be achieved and hence no amount is recognised as cost for services received from the grantees.

33 Share Capital

(a) Authorised and issued share capital

	2011		2010	
	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 and fully paid:				
At 1 January	**1,811,157**	**181,116**	1,673,220	167,322
Issued for cash (note (i))	**–**	**–**	137,000	13,700
Shares repurchased (note (ii))	**(1,800)**	**(180)**	–	–
Exercise of share options (notes (iii) and 32(b))	**13,399**	**1,340**	937	94
At 31 December	**1,822,756**	**182,276**	1,811,157	181,116

Notes:

(i) 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. There was no new share placing during the year ended 31 December 2011.

(ii) In September 2011, the Company repurchased 1,800,000 of its own ordinary shares on the Stock Exchange. The repurchased shares were cancelled in October 2011 and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of $14,067,000 was charged to share premium.

(iii) During the year ended 31 December 2011, options were exercised to subscribe for 13,399,000 (2010: 937,000) new ordinary shares of the Company at a consideration of $99,956,000 (2010: $6,990,000), of which $1,340,000 (2010: $94,000) was credited to share capital and the balance of $98,616,000 (2010: $6,896,000) was credited to the share premium account. The fair value of the options exercised of $19,655,000 (2010: $1,381,000) has been transferred from retained earnings to the share premium.

33 Share Capital (continued)

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

Exercise period	Exercise Price	2011 Number '000	2010 Number '000
After the result announcement for the year ended 31 December 2007 to 9 November 2016	$7.46	**850**	850
After the result announcement for the year ended 31 December 2008 to 9 November 2016	$7.46	**1,850**	1,955
After the result announcement for the year ended 31 December 2009 to 9 November 2016	$7.46	**9**	8,678
From 1 July 2010 to 9 November 2016 (note)	$7.46	**2,634**	5,150
After the result announcement for the year ended 31 December 2010 to 9 November 2016	$7.46	**2,291**	4,400
After the result announcement for the year ended 31 December 2011 to 2 September 2021	$18.04	**20,850**	–
After the result announcement for the year ending 31 December 2012 to 2 September 2021	$18.04	**20,850**	–
After the result announcement for the year ending 31 December 2013 to 2 September 2021	$18.04	**20,850**	–
After the result announcement for the year ending 31 December 2014 to 2 September 2021	$18.04	**20,850**	–
		91,034	21,033

Note: Pursuant to a board resolution on 30 June 2010, to reward for the performance of certain staff members, 5,150,000 options of the fourth tranches of 2006 Options which should be vested after the result announcement for the year ended 31 December 2010 were early vested on 1 July 2010.

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

34 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 34(b)) $'000	Contributed surplus (note 34(h)) $'000	Retained earnings/ (accumulated losses) $'000	Total $'000
At 1 January 2010		4,194,786	297,480	28,744	4,521,010
Shares issued for cash	33(a)	3,545,500	–	–	3,545,500
Share issue expense		(50,946)	–	–	(50,946)
Shares issued under the share option scheme	33(a)	8,277	–	(1,381)	6,896
Profit for the year		–	–	608,037	608,037
Equity-settled share-based payments	32	–	–	3,687	3,687
Dividends approved and paid during the year	34(j)	–	–	(617,324)	(617,324)
At 31 December 2010		7,697,617	297,480	21,763	8,016,860
At 1 January 2011		**7,697,617**	**297,480**	**21,763**	**8,016,860**
Shares repurchased	33(a)	**(14,067)**	**–**	**–**	**(14,067)**
Shares issued under the share option scheme	33(a)	**118,271**	**–**	**(19,655)**	**98,616**
Profit for the year		**–**	**–**	**345,010**	**345,010**
Equity-settled share-based payments	32	**–**	**–**	**177**	**177**
Dividends approved and paid during the year	34(j)	**(401,403)**	**–**	**(362,883)**	**(764,286)**
At 31 December 2011		**7,400,418**	**297,480**	**(15,588)**	**7,682,310**

(b) Share premium

Under the Bermuda Companies Act 1981 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.

34 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.

34 Reserves and Dividends (continued)

(i) Distributable reserves

In addition to retained earnings, under the Bermuda Companies Act 1981, 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 2011, the aggregate amount of reserves available for distribution to equity holders of the Company was $7,682,310,000 (2010: $8,016,860,000).

(j) Dividends

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

	2011 $'000	2010 $'000
Interim dividend declared and paid of $0.22 (2010: $0.20) per share	**401,403**	352,831
Final dividend proposed after the balance sheet date of $Nil (2010: $0.20) per share	**–**	362,231
	401,403	715,062

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

	2011 $'000	2010 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.20 (2010: $0.15) per share	**362,883**	264,493

In respect of the dividends attributable to the year ended 31 December 2010, 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.

34 Reserves and Dividends (continued)

(k) 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 equity attributable to equity holders of the Company, excluding non-controlling interests. In order to maintain the capital structure, the Board of Directors also repurchase existing shares and 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 2011 was 11.2% (2010: 19.0%).

The Group is subject to externally imposed capital requirement.

35 Financial Risk Management and Fair Values

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- interest rate risk
- foreign currency 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.

Risk management framework

The Board of Directors acknowledges that it is responsible for the establishment and oversight of the Group's risk management framework.

The Group's internal control systems 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. The internal control 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 internal control systems 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 Department. Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the findings and recommendations of which are reported to the Audit Committee.

35 Financial Risk Management and Fair Values (continued)

(a) 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, derivative financial instruments and deposits with banks. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and counterparty to the financial instruments.

Trade and other receivables

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's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the balance sheet date, 32% (2010: 22%) of the trade receivables was due from the five largest customers of the Group.

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.

Credit risk on trade and other receivables has already been taken into account as trade and other receivables are shown in the balance sheet net of impairment losses. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 27.

Derivative financial instruments

Transactions involving derivative financial instruments are with financial institutions in the PRC of sound credit standing and with whom the Group has signed agreements. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

Cash and cash equivalents

Cash is placed with a group of banks in the PRC and Hong Kong which management considers have good credit ratings.

(b) 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.

35 Financial Risk Management and Fair Values (continued)

(b) Liquidity risk (continued)

The Group actively manages its debt maturity profile and 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 capital expenditures, working capital requirements and its obligations as and when they fall due.

The following are the contractual maturities of financial liabilities of the Group and the Company based on lenders' ability to demand earliest repayments, including estimated interest payments and excluding the impact of netting agreements:

The Group

31 December 2011

	Carrying amount $'000	Contractual undiscounted cash flows $'000	6 months or less or on demand $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
Bank loans	**5,926,025**	**6,280,268**	**3,227,660**	**2,145,184**	**247,023**	**602,618**	**57,783**
Finance lease liabilities	**178,101**	**292,375**	**3,553**	**3,553**	**7,106**	**26,247**	**251,916**
Trade and other payables excluding derivative financial instruments	**3,013,294**	**3,013,294**	**3,013,294**	**–**	**–**	**–**	**–**
Derivative financial instruments:							
– Forward exchange contracts							
– Outflow	**200,596**	**200,596**	**–**	**200,596**	**–**	**–**	**–**
– Inflow	**(199,361)**	**(199,361)**	**–**	**(199,361)**	**–**	**–**	**–**
	9,118,655	**9,587,172**	**6,244,507**	**2,149,972**	**254,129**	**628,865**	**309,699**

31 December 2010

	Carrying amount $'000	Contractual undiscounted cash flows $'000	6 months or less or on demand $'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	25,755	247,929
Trade and other payables	1,817,121	1,817,121	1,817,121	–	–	–	–
Derivative financial instruments:							
– Forward exchange contracts							
– Outflow	403,511	403,511	95,779	–	307,732	–	–
– Inflow	(427,087)	(427,087)	(103,406)	–	(323,681)	–	–
	5,646,223	5,864,079	3,808,106	1,198,279	68,370	541,395	247,929

35 Financial Risk Management and Fair Values (continued)

(b) Liquidity risk (continued)

The Company

31 December 2011

	Carrying amount $'000	Contractual undiscounted cash flows $'000	6 months or less or on demand $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000
Bank loans	**496,512**	**496,512**	**496,512**	**–**	**–**	**–**
Other payables	**9,377**	**9,377**	**9,377**	**–**	**–**	**–**
	505,889	**505,889**	**505,889**	**–**	**–**	**–**

31 December 2010

	Carrying amount $'000	Contractual undiscounted cash flows $'000	6 months or less or on demand $'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	–	–	–
	357,314	381,483	10,268	3,458	6,916	360,841

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier.

(c) 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.

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

Except for the variable-value borrowings, the financial assets and liabilities as at 31 December 2011 and 2010 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.

35 Financial Risk Management and Fair Values (continued)

(c) Interest rate risk (continued)

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 $3,021,000 (2010: $20,469,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

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 variables remain constant.

(d) Foreign currency risk

Substantially all the revenue-generating operations of the Group are transacted in RMB, 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.

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:

Exposure to foreign currencies (expressed in HKD)

	The Group				The Company			
	2011		2010		**2011**		2010	
	Euro	**USD**	Euro	USD	**Euro**	**USD**	Euro	USD
	$'000	**$'000**	$'000	$'000	**$'000**	**$'000**	$'000	$'000
Derivative financial instruments	**200,596**	**–**	403,511	–	**–**	**–**	–	–
Current assets	**21,009**	**609,241**	207	789,626	**–**	**2,900**	–	2,896
Current liabilities	**(2,714)**	**(120,983)**	–	–	**–**	**–**	–	–
	218,891	**488,258**	403,718	789,626	**–**	**2,900**	–	2,896

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

35 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 and short-term bank loans are not materially different from their carrying amounts based on the nature or short-term maturity of these instruments.

The carrying amounts of the Group's long-term bank loans approximate their fair value because the borrowing rates were similar to rates currently available for bank loans with similar terms and maturity.

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 follows:

	2011		2010	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Finance lease liabilities	**178,101**	**115,413**	171,385	125,717

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:

	2011	2010
Finance lease liabilities	**6.42%**	5.29%

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.

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).

35 Financial Risk Management and Fair Values (continued)

(e) Fair value (continued)

Fair value hierarchy (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2011				
Derivative financial liabilities	**–**	**1,235**	**–**	**1,235**
31 December 2010				
Derivative financial assets	–	23,576	–	23,576

(f) 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.

36 Commitments

(a) Operating leases

The Group's total future minimum lease payments under non-cancellable operating leases in respect of properties were payable as follows:

	2011 **$'000**	2010 $'000
Within 1 year	**3,599**	3,081
After 1 year but within 5 years	**2,712**	3,450
Over 5 years	**3,169**	3,420
	9,480	9,951

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

36 Commitments (continued)

(b) Capital commitments

Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	2011 $'000	2010 $'000
Contracted for	**6,607,305**	1,614,410
Authorised but not contracted for	**–**	1,191,176
	6,607,305	2,805,586

In respect of its interest in a jointly controlled entity, the jointly controlled entity is committed to incur capital expenditures of $5,747,000 (2010: $Nil), of which the capital expenditures shared by the Group amounted to $2,816,000 (2010: $Nil).

37 Related Party Transactions

During the years ended 31 December 2011 and 2010, the Group had the following material related party transactions:

(a) Significant related party transactions

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

	2011 $'000	2010 $'000
Sales of raw materials to related companies (note (i))	**1,077**	–
Sales of raw materials to an associate (note (ii))	**–**	15
Purchase of raw materials from related companies (note (i))	**199,528**	171,702
Purchase of finished goods from an associate (note (ii))	**402**	3,320

Notes:

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

(ii) In March 2011, the Group disposed of all of its equity interest in an associate. Further details are disclosed in note 21 to the financial statements.

(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 16 and 30) and operating leases respectively. The rental for the year ended 31 December 2011 amounted to $6,757,000 (2010: $6,456,000).

37 Related Party Transactions (continued)

(a) Significant related party transactions (continued)

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

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 a related company (note 37 (a)(i)(i)) during the year ended 31 December 2011. The rental paid or payable to that related company and certain expenses borne by the Company amounted to $2,775,000 (2010: $2,487,000) for the year ended 31 December 2011.

(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 $153,920,000 (2010: $37,107,000) as at 31 December 2011 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 2011 and 2010, a related company (note 37(a)(i)(i)) granted a non-exclusive and non-transferable license for the use of certain trademarks to the Group. No charge is paid or payable by any of the group companies.

(b) Amounts due from related parties

	2011 **$'000**	2010 $'000
Non trade receivable due from		
– an associate (note 37(a)(i)(ii))	**–**	158
– related companies (note 37(a)(i)(i))	**321**	–
	321	158

Amounts due from related parties are unsecured, interest free and are expected to be recovered within one year. There was no impairment made against these amounts at 31 December 2011 and 2010.

37 Related Party Transactions (continued)

(c) Amounts due to related parties

	2011 $'000	2010 $'000
Trade payables due to		
– an associate (note 37(a)(i)(ii))	**–**	310
– related companies (note 37(a)(i)(i))	**7,676**	2,907
	7,676	3,217

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

(d) Key management personnel remuneration

Remuneration for key management personnel, mainly representing the amounts paid to the directors of the Company, was disclosed in note 11 to the consolidated financial statements.

38 Subsequent Event

On 9 March 2012, the Board of Directors of the Company approved a capital expenditure plan for 2012 amounting to $1,500,000,000.

39 Accounting Estimates and Judgements

Key sources of estimation uncertainty

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

(i) Impairment of property, plant and equipment, investment properties, lease prepayments and goodwill

The Group reviews its property, plant and equipment, investment properties, lease prepayments and goodwill for indications of impairment at each balance sheet date according to accounting policies set out in note 3(k). 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.

39 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.

(vi) Vesting of share options

The share options granted are subject to the achievement of performance-based vesting condition. The Group recognises the cost for services received from the grantees based on the estimation on the number of share options expected to vest. The equity-settled share-based payment expense for future periods is adjusted if subsequent information indicates that the number of share options expected to vest differs from previous estimates.

(Expressed in Hong Kong dollars unless otherwise indicated)

40 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Year Ended 31 December 2011

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 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
IAS 27, *Separate financial statements(2011)*	1 January 2013
IAS 28, *Investments in associates and joint ventures(2011)*	1 January 2013
IFRS 9, *Financial instruments*	1 January 2015
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures – Transfer of financial assets*	1 July 2011
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014

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

List of Principal Subsidiaries

Appendix 1

The following list contains only the particulars of subsidiaries as at 31 December 2011 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 interest held by 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	The 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	The 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	The 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	The PRC	RMB10,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Lianyungang Furun Food Co., Ltd. (note (i)) 連雲港福潤食品有限公司	The 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	The PRC	US$3,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Xiangfan Zhende Meat Product Co., Ltd. (note (iii)) 襄樊禎德肉類食品有限公司	The PRC	RMB5,000,000	–	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
Jiangsu Yurun Food Co., Ltd. (note (iii)) 江蘇雨潤肉食品有限公司	The PRC	RMB1,000,000,000	–	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	The 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	The 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	The 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	The PRC	US$60,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat and processed meat products
Tengzhou Dongqi Food Co., Ltd. (note (iii)) 滕州東啟肉類加工有限公司	The PRC	RMB10,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat

Notes:

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

(ii) This entity established in the PRC is a sino-foreign joint-venture company.

(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(b)(ii) and have been consolidated into the consolidated financial statements.

Five-year Summary

(Expressed in Hong Kong dollars)

	2007 $'000	2008 $'000	2009 $'000	2010 $'000	**2011** **$'000**
Assets and liabilities					
Non-current assets	2,970,991	5,065,556	7,733,573	11,501,663	**17,129,226**
Net current assets	2,363,485	1,237,613	988,738	3,860,329	**160,169**
Total assets less current liabilities	5,334,476	6,303,169	8,722,311	15,361,992	**17,289,395**
Non-current liabilities	(1,003,636)	(1,068,074)	(322,132)	(879,494)	**(1,117,648)**
Net assets	4,330,840	5,235,095	8,400,179	14,482,498	**16,171,747**
Share capital	152,695	153,107	167,322	181,116	**182,276**
Reserves	3,986,480	5,061,849	8,202,380	14,255,593	**15,926,506**
Total equity attributable to equity holders of the Company	4,139,175	5,214,956	8,369,702	14,436,709	**16,108,782**
Non-controlling interests	191,665	20,139	30,477	45,789	**62,965**
Total equity	4,330,840	5,235,095	8,400,179	14,482,498	**16,171,747**
Operating results					
Turnover	8,635,117	13,023,901	13,870,428	21,472,747	**32,315,193**
Results from operating activities	871,561	1,175,242	1,955,734	2,973,924	**1,942,117**
Net finance income/(costs)	41,218	64,001	(64,404)	(47,635)	**(36,231)**
Share of losses of associates	(761)	(781)	(113)	(447)	**(299)**
Share of loss of a jointly controlled entity	–	–	–	–	**(114)**
Profit before income tax	912,018	1,238,462	1,891,217	2,925,842	**1,905,473**
Income tax expense	(51,189)	(101,449)	(142,573)	(189,113)	**(99,532)**
Profit for the year	860,829	1,137,013	1,748,644	2,736,729	**1,805,941**
Attributable to:					
Equity holders of the Company	859,319	1,137,781	1,745,288	2,728,176	**1,799,088**
Non-controlling interests	1,510	(768)	3,356	8,553	**6,853**
Profit for the year	860,829	1,137,013	1,748,644	2,736,729	**1,805,941**
Earnings per share					
Basic ($)	0.584	0.744	1.089	1.565	**0.989**
Diluted ($)	0.582	0.736	1.074	1.551	**0.985**