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

Striving for Our Promising Future

Annual Report 2013

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Corporate Information

Board of Directors

Executive Directors

Yu Zhangli *(Chairman)*
Li Shibao *(Chief Executive Officer)*
Feng Kuande
Ge Yuqi

Non-executive Directors

Wang Kaitian
Li Chenghua

Independent Non-executive Directors

Gao Hui
Qiao Jun
Chen Jianguo

Audit Committee

Gao Hui *(Chairman)*
Qiao Jun
Chen Jianguo

Remuneration Committee

Qiao Jun *(Chairman)*
Gao Hui
Yu Zhangli

Nomination Committee

Chen Jianguo *(Chairman)*
Gao Hui
Yu Zhangli

Company Secretary

Lee Wing Sze, Rosa *HKICPA, FCCA*

Authorised Representatives

Yu Zhangli
Lee Wing Sze, Rosa

Auditors

KPMG

Principal Bankers

Bank of China Limited
Agricultural Bank of China Limited
Bank of Communications Co., Ltd.
Industrial and Commercial Bank of China Limited
China Merchants Bank Co., Ltd.
China CITIC Bank Corporation Limited
DBS Bank Ltd., Hong Kong Branch

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

Room 4006, 40th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Advisors

As to Hong Kong Law

Norton Rose Fulbright Hong Kong
Iu, Lai & Li Solicitors & Notaries

As to Bermuda Law

Conyers Dill & Pearman

Stock Code

1068

Website

www.yurun.com.hk

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present to you the annual results of the Group for the year ended 31 December 2013 (the "Review Year").

Business Review

During the Review Year, despite the rising labour costs and enhanced macro control, China's economy basically remained stable. In 2013, domestic food and beverage consumption slightly declined while household demand for meat consumption remained flat, and the growth of the overall pork consumption slowed down. In the meantime, persistent increase in production and labour costs and fluctuation of hog prices in 2013 resulted in higher pressure on the hog slaughtering and meat processing industry. The Central Government initiated measures to maintain frozen pork reserve for several times to stabilise hog price and rejuvenate the hog market.

In 2013, the Central Government accelerated the consolidation of the meat products industry. Enhancement in industry supervision and food safety became the main direction in policy making. Supreme People's Court issued a new judicial interpretation under which it is unlawful to set up hog slaughterhouses without authorisation and engage in illegal hog slaughtering activities. This is to secure food safety from the source. During the Review Year, the Ministry of Commerce continued to promote meat and vegetables tracking systems to improve standardised food management. The Central Government also issued a notice on reinforcing supervision on agricultural products' quality and safety, emphasizing enhanced accountability on agricultural products management. According to the notice, the Ministry of Agriculture, instead of the Ministry of Commerce, becomes responsible for supervising and regulating the hog slaughtering industry. Segregation of duties and accountability is further specified to improve the overall supervision system. Regular supervision activities were held which laid a foundation for industry regulation and standardisation and sustainable development. This also facilitated the leading enterprises to align with the industry consolidation by leveraging on their competitive advantages in brand, production capacity and nationwide network.

Chairman's Statement

As one of the leading meat product suppliers in China, the Group has persistently adhered to its corporate philosophy that "you trust because we care" since its establishment. It has been promoting and adhering to international food safety standards in order to provide trustworthy foods. The Group has also established a comprehensive hygiene inspection system for raw and other materials, as well as a product quality management system, a pre-delivery quality control system and a cold chain logistics and product recall system as a one-stop product safety net. During the Review Year, the Group continued to establish its sales channels and improve the image of "Yurun Food and Beverage branded shops" to enhance both quality of meat products and profitability of the Group.

In 2013, the Group's business was recovering. Despite the complicated and changing macro economy as well as industry consolidation and transformation and pressure from persistent increase in operating costs, the Group recorded a turnover of HK$21.440 billion, and the profit attributable to equity holders of approximately HK$44 million in 2013 from a loss of HK$605 million in 2012.

Facing severe challenges, all staff of Yurun Food has been making unfailing efforts to consolidate Yurun's existing business, leverage on its competitive edge in brand and solidify its foundation for long-term development through product upgrades, market optimisation, rigorous costs control, proactive and effective marketing strategies as well as stringent quality control which exceeds the industry average standard.

Meanwhile, the Group capitalised the valuable opportunities arising from industry consolidation and improved the supply chain system and channel for better food safety management. In the meantime, the Group was the pioneer in the industry to put in place a food safety tracking system, making all food product "trackable" throughout the process, which further refined the product quality control system. During the Review Year, the Group's continued efforts in enhancing its brand and image brought Yurun Food the honour of "Food Manufacturing Enterprise of the Year" in the 3rd Awards for Outstanding Contribution in Food Safety and Public Health. Yurun was the only meat processing enterprise winning the award in the industry, demonstrating its well-received image as a responsible corporation.

Prospect

In 2014, no obvious upturn in the global economy has been seen. Under the influence of macro control, China's economy is expected to remain stable in this year. Against the backdrop of the stable consumption market and driven by the expanding meat product market, the gradual increasing income per-capita under urbanisation and increasing concern from the Central Government on food safety, the consumption of pork in China is expected to boost with increasing demand for mid-to-high end branded meat products in the coming year. Leading enterprises with focus on producing mid-to-high end branded meat products will continuously be benefited from the favourable situation. Business environment will continue to improve.

The Board and the management will try our best to steadily resume business growth. With the competitive edge in many aspects such as distribution, production, management and network over the years and supported by policies favourable to industry integration, it is believed that influential power of enterprise and economies of scale will become more prominent and can deliver reasonable returns on our preliminary investment in productivity and market of the Group.

Acknowledgement

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 persistent support and trust. My gratitude also goes to our 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 and keep Yurun Food in a leading position in the meat products manufacturing industry in China.

Yu Zhangli
Chairman
Hong Kong, 21 March 2014

食品之业是道德工业

You Trust Because We Care

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Management Discussion and Analysis

Industry Overview

During the year ended 31 December 2013 (the "Review Year"), China's economy remained stable. According to the data released by the National Bureau of Statistics of China, China's gross domestic product reached Renminbi ("RMB") 56,884.5 billion during the Review Year, representing an increase of 7.7% over previous year based on comparable prices. Economic growth rate was basically equal to that of last year. During the Review Year, against the backdrop of persistent increase in production and labour costs, persistent fluctuation of hog price and a slight drop in consumption in the catering industry as compared with previous years, the Chinese hog slaughtering and meat processing industry was under tremendous pressure.

During the Review Year, pork price fluctuated significantly, while the average price for the year basically levelled to that of 2012. Specifically, pork price reached the highest level of the year during the traditional peak season from January to February. After the Chinese New Year, pork price declined steadily, and dropped to its lowest level in May, which frustrated the motivation of hog farmers and resulted in a significant decrease in the restock of hogs' grower sheds in the same period. During the Review Year, due to the implementation of the reserve plan for frozen pork by the Central Government, pork price rallied from June. During summer, hog production declined in major production regions under scorching weather. Decrease in hog stock earlier caused market supply to become tight and slightly drove pork price up. Pork price fluctuated slightly in the period from October to December but remained stable as a whole.

During the Review Year, accelerated urbanisation in the People's Republic of China ("the PRC") continued to fuel catering consumption. Despite the seasonal fluctuations, the overall pork consumption maintained a sound and steady growth. Meanwhile, the Chinese Government continuously strengthened food quality and safety control and the industry continued to eliminate those obsolete capacities. In February 2013, the General Office of the Ministry of Agriculture of the PRC issued the Notice of the General Office of the Ministry of Agriculture on Further Strengthening Supervision over Hygiene in Livestock Slaughtering (《農業部辦公廳關於進一步强化屠

Management Discussion and Analysis

宰環節動物衛生監督工作的通知》) to further strengthen the supervision over hygiene in livestock slaughtering so as to ensure quality and safety of livestock products. In April 2013, the General Office of the State Council issued the Notice of the General Office of the State Council on Printing and Distributing the 2013 Key Work Arrangement on Food Safety (《國務院辦公廳關於印發2013年食品安全重點工作安排的通知》) and the Guidelines of the State Council on Local Reform and Improvement of the System of Supervision and Management of Food and Drugs (《國務院關於地方改革完善食品藥品監督管理體制的指導意見》), striving to improve the overall standard of the food industry, create a fair market with credibility and integrity under the rules of law and comprehensively enhance food safety. In mid-December 2013, the functions of supervising and regulating the hog slaughtering were transferred to the Ministry of Agriculture from the Ministry of Commerce with clearer segregation of duties and improved regulatory system. The Board believes that the industry consolidation and enhancement of food production standards will continue to facilitate the leading enterprises in the industry to capitalise their advantages in brand, production capacity and nationwide network and will also promote proactive and steady development of the industry.

Business Review

In 2013, due to the slackened domestic economic growth, weak and sluggish end-user consumption of meat products, as well as intensifying market competition, rapid expansion of business and continued increase in production costs of the Group in last few years, the Group encountered severe challenges in business development. Against the difficult business environment, Yurun Food applied various proactive and prudent measures to strengthen the Group's brand building, improve consumer communication and strictly prevent food safety risks, and made substantial efforts to develop sales through channels such as chain restaurants and branded shops, develop new products and adhere to product diversification and prudent investment strategies, so as to strike a balance between industry consolidation and the sound and steady development of the Group.

Management Discussion and Analysis

Product Quality and R&D

It has always been Yurun Food's aim to produce products of high quality to satisfy increasing market demand for quality meat products. During the Review Year, under the leadership of the Group's management and adhering to its operation philosophy of "you trust because we care" and stringent quality control, Yurun Food was awarded the honour of "Food Manufacturing Enterprise of the Year" in the 3rd Awards for Outstanding Contribution in Food Safety and Public Health and was the only meat processing enterprise being awarded with this honour. In addition to the "Yurun" brand, another famous brand of the Group, "Harbin Popular Meat Packing", was being recognised as "Chinese Well Known Mark" by the State Administration for Industry and Commerce recently, representing good reputation and social recognition of its established brand of quality meat products. The Group will continue to focus on research and development of products which are well received by consumers, so as to maintain its competitive advantages and consolidate its market share in the industry.

Sales and Distribution

Chilled pork and low temperature meat products ("LTMP"), which are the Group's products with higher added value, continued to play an important role in the Group's overall business development during the Review Year. In 2013, sales of chilled pork of the Group was HK$16.528 billion (2012: HK$21.007 billion), representing a decrease of 21.3% as compared to that of last year, accounting for approximately 75% of the total turnover of the Group prior to inter-segment eliminations (2012: 76%) and approximately 86% of the turnover of the upstream slaughtering segment (2012: 85%). Sales of LTMP was HK$2.633 billion (2012: HK$2.395 billion), representing an increase of 9.9% over the same period last year, accounting for approximately 12% of the total turnover of the Group prior to inter-segment eliminations (2012: 9%) and approximately 89% of the turnover of the downstream processed meat segment (2012: 89%).

Environmental Policies and Performance

As a responsible enterprise, the Group is committed to environmental protection and strives to minimise the impact of existing production and business activities on the environment. During the Review Year, the Group has in place control measures in respect of its production procedures for the purpose of reducing waste generation. Going forward, the Group aims at improving its control measures to minimise waste and participating in appropriate conservation and sustainability initiatives as part of its long term environmental protection strategy.

Production Facilities and Production Capacity

To fully capitalise business opportunities arising from industry consolidation, make forward-looking deployment in regions with ample hog production capacity and satisfy market demand for quality meat products, and adhering to the principle of strict control over investment costs, the Group prudently adjusted its expansion pace in line with market changes and at the same time pursued its development plan steadily and progressively.

In respect of its upstream slaughtering segment, against the backdrop of adjustment to expansion pace by the management, only one new plant commenced production in 2013. Deducting the capacity of the subsidiaries sold and eliminating the obsolete capacities during the year, the Group's annual upstream slaughtering capacity was 55.45 million heads as at the end of 2013, decreased by 1.20 million heads as compared with the annual capacity of 56.65 million heads as at the end of 2012.

As at the end of 2013, the Group's annual production capacity of downstream processed meat segment was approximately 312,000 tons, representing an increase of approximately 5,000 tons compared to that as at the end of 2012.

Financial Review

During the Review Year, the Group recorded a turnover of HK$21.440 billion, representing a decrease of 19.9% as compared to HK$26.782 billion last year, profit attributable to equity holders of the Company of approximately HK$44 million (2012: a loss of HK$605 million), representing an increase of over 100% over that of last year. Diluted earnings per share was HK$0.024 (2012: HK$0.332 diluted loss per share).

Turnover

Chilled and Frozen Pork

During the Review Year, total sales from upstream business (before inter-segment eliminations) decreased by 22.7% to HK$19.164 billion (2012: HK$24.787 billion) as compared with last year mainly due to the abandoning of certain sales with low values to the Group during the process of re-engineering distribution channel and product structure. As such, slaughtering volume of the Group decreased by approximately 29% over that of last year. Sales of chilled pork decreased by 21.3% to HK$16.528 billion (2012: HK$21.007 billion), accounting for approximately 86% (2012: 85%) of the total turnover of the upstream business. Sales of frozen pork decreased by 30.3% to HK$2.636 billion (2012: HK$3.780 billion), accounting for approximately 14% of the total turnover of the upstream business (2012: 15%).

Processed Meat Products

During the Review Year, sales of processed meat products (before inter-segment eliminations) of the Group was HK$2.949 billion (2012: HK$2.688 billion), representing a significant increase of 9.7% as compared with 2012.

Specifically, turnover of LTMP during the Review Year was HK$2.633 billion, representing an increase of 9.9% as compared with HK$2.395 billion in 2012. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 89% (2012: 89%) of the turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") increased by 7.9% to HK$316 million (2012: HK$293 million), accounting for approximately 11% (2012: 11%) of the revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased significantly by 92.5% from HK$398 million in 2012 to HK$766 million in 2013. Gross profit margin increased by 2.1 percentage points from 1.5% in 2012 to 3.6% in 2013. In 2013, the business of the Group recovered gradually, our bargaining power increased and at the same time the costs of production decreased which led to the increase in gross profit margin.

With respect to the upstream business, gross profit margin of chilled and frozen pork was 2.9% and -9.9% respectively (2012: 1.7% and -11.2% respectively). The overall gross profit margin of the upstream segment was 1.1%, representing an increase of 1.4 percentage points as compared with -0.3% last year.

With respect to the downstream products, gross profit margin of LTMP was 19.0%, representing an increase of 2.2 percentage points as compared with 16.8% last year. Gross profit margin of HTMP was 15.4%, representing an increase of 2.3 percentage points from 13.1% last year. Overall gross profit margin of the downstream segment was 18.7%, representing an increase of 2.3 percentage points as compared with 16.4% last year.

Other Net Income

Other net income mainly included government subsidies, gain on disposal of subsidiaries and cold storage rental income. During the Review Year, other net income of the Group was HK$1.204 billion, representing an increase of HK$260 million as compared with HK$944 million in last year. The increase in other net income was mainly due to gain on disposal of two subsidiaries of slaughtering business of HK$444 million during the Review Year and no such income was recorded in 2012.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.707 billion, representing a decrease of 3.25% as compared to HK$1.764 billion in 2012. Decrease in operating expenses was mainly due to strict control on expenses which led to a significant decrease in advertising and promotion expenses. Operating expenses represented 8.0% of the Group's turnover, an increase of 1.4 percentage points as compared with 6.6% last year, mainly due to decrease in revenue of the Group that led to the increase of the ratio.

Operating Profit

In 2013, operating profit of the Group was HK$262 million, significantly increased by HK$684 million compared to the operating loss of HK$422 million in 2012.

Finance Costs

Net finance costs of the Group was HK$154 million in 2013, slightly increased by approximately HK$9 million from HK$145 million in 2012. Net finance costs increased compared with that of last year as interest expenses on borrowing rose due to increased bank loans and other borrowings during the Review Year. Facing the pressure from increasing finance costs, the Group issued the medium term notes ("MTN") at a lower interest rate to optimize its debt structure and to reduce the growth rate of the finance costs.

Income Tax

The total income tax for the Review Year was HK$64 million, representing an increase of 54.2% as compared with HK$42 million last year. The increase was mainly attributable to the corporate income tax which arose from the gain on disposal of two subsidiaries of the slaughtering business during the Review Year.

Profit attributable to equity holders of the Company

Taking into account of all the above factors, profit attributable to equity holders of the Company was approximately HK$44 million (2012: loss attributable to equity holders of the Company HK$605 million), representing a significant increase of HK$649 million.

Management Discussion and Analysis

Financial Resources

During the Review Year, the second tranche of domestic MTN with an aggregate principal amount of RMB1 billion was issued in the PRC by Nanjing Yurun Food Co., Ltd., a wholly-owned subsidiary of the Company. The second tranche of the MTN is also unsecured with a term of 3 years (same as the first tranche issued in 2012) and bears a fixed interest rate of 5.27% per annum. This interest rate is lower than the interest rate of 5.49% applicable to the first tranche and more favourable compared with most of the bank loans of the Group. The Group issued the MTN at a lower interest rate to optimize its debt structure. The proceeds from the MTN have been used for repayment of short-term loans with higher interest rates and as general working capital of the Group. As at 31 December 2013, the Group's cash balance together with time deposits and pledged deposits were HK$2.490 billion and approximately 95% is denominated in Hong Kong dollars and RMB, representing a decrease of HK$347 million as compared to HK$2.837 billion as at 31 December 2012, and were mainly used for daily operating activities and construction costs.

As at 31 December 2013, the Group had outstanding bank loans of HK$8.315 billion (including the MTN), representing an increase of HK$1.215 billion from HK$7.099 billion as at 31 December 2012, of which, HK$3.415 billion (2012: HK$3.618 billion) of the borrowings was bank loan repayable within one year and all of the loans of the Group were denominated in RMB. The bank loan repayable within one year is able to be revolved upon maturity. The fixed rate debt ratio of the Group increased to 62.2% as at 31 December 2013 (2012: 53.9%). Taking into account the funds used for both daily operations and investments in production facilities during the Review Year, the Group was still able to maintain prudent financial management. Having sufficient working capital together with adequate amount of unutilised credit facilities, the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group decreased significantly by 27.6% to HK$1.752 billion during the Review Year as compared with HK$2.420 billion last year.

Assets and Liabilities

As at 31 December 2013, the total assets and total liabilities of the Group were HK$26.942 billion (2012: HK$25.648 billion) and HK$10.931 billion (2012: HK$10.101 billion) respectively, representing an increase of HK$1.294 billion and HK$829 million as compared with the total assets and liabilities as at 31 December 2012 respectively.

As at 31 December 2013, property, plant and equipment of the Group amounted to HK$15.926 billion (2012: HK$14.518 billion), representing an increase of HK$1.408 billion as compared with 31 December 2012.

Lease prepayment of the Group as at 31 December 2013 amounted to HK$3.969 billion (2012: HK$3.842 billion). This represented the purchase cost of land use rights which was amortised on a straight-line basis over the respective periods of the rights.

Non-current prepayments of the Group represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2013, the prepayments amounted to HK$425 million (2012: HK$401 million). No assets have been depreciated or amortised.

As at 31 December 2013, equity attributable to equity holders of the Company was HK$15.950 billion in total, representing an increase of HK$461 million as compared with HK$15.489 billion as at 31 December 2012.

As at 31 December 2013, the gearing ratio (total debt represented by the sum of bank loans, the MTN and finance lease liabilities divided by the sum of total debt and equity) of the Group was 34.8%, representing an increase of 2.8 percentage points as compared with 32.0% as at 31 December 2012. As at 31 December 2013, after excluding cash, time deposits and pledged deposits, the gearing ratio of the Group was 24.6% (2012: 19.5%), which is still at a reasonable level.

Charges on Assets

As at 31 December 2013, certain properties and construction in progress of the Group with a carrying amount of HK$1.019 billion, lease prepayments of the Group with a carrying amount of HK$539 million (2012: HK$418 million and HK$490 million respectively) were pledged against certain bank loans with a total amount of HK$2.110 billion (2012: HK$2.162 billion).

Certain secured loans of the Group as at 31 December 2013 amounted to HK$5.85 million (2012: HK$5.67 million) were secured by pledged deposits denominated in RMB amounting to HK$6.41 million (2012: HK$6.04 million).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, Future Plans for Material Investment or Acquisition of Capital Assets

Having considered the operation and cash flow of the Group, the Board takes a more prudent approach on capital expenditure plan for 2014. The preliminary capital expenditure plan for 2014 approved by the Board is currently expected to be approximately RMB800 million, which will be mainly used to complete the construction in progress which already commenced. As at the date of this report, the budget and the expenditure plan are yet to be finalised and the Group has not identified any particular target or opportunity at this stage. Save as disclosed herein, the Group did not hold any other substantial investment nor have any substantial acquisition and sale of subsidiaries or associated companies 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 2013.

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, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. The functional currency of operating subsidiaries of the Group in the PRC is RMB, which is not freely convertible into foreign currencies. The Group will monitor its exposure to exchange rate by considering factors including but not limited to, exchange rate movement of the relevant foreign currencies as well as cash flow requirements of the Group to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

To save costs, the Group implemented streamlining measures during the Review Year. As at 31 December 2013, the Group had approximately 23,000 (2012: 26,000) employees in the PRC and Hong Kong in total, decreased by approximately 3,000 employees compared with that of 31 December 2012. During the Review Year, the total staff cost was HK$857 million, accounting for 4.0% of the turnover (2012: HK$969 million, accounting for 3.6% of the turnover).

The Group offered competitive remuneration 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. Remuneration to the employees offered by the Group is generally determined with reference to market conditions, individual performance and contributions. In addition, the Group allocated resources for providing continuing education and training for management and other employees so as to improve their skills and knowledge.

Outlooks

2014 is expected to be a challenging year for Yurun Food. The management and all staff of the Group will continue to make best efforts to resume the growth of the business. The management's mission is to endeavour to grow the slaughtering volume at a stable rate and improve the gross profit margin. The Group will continue to strictly control the operation expenses and plan the capital expenditure prudently to further improve the results of the Group and strive for our promising future.

Forward-looking Statements

This report contains certain forward-looking statements and information with respect to the financial condition and business of the Group which are based on current information available to and assumptions made by the management of the Group. These forward-looking statements concern future events and involve risks and uncertainty that could cause actual results and performance of the Group to differ materially. Shareholders are advised not to place under reliance on any forward-looking information.

Biographical Details of Directors

Executive Directors

Mr. Yu Zhangli, aged 46, has been an executive Director of the Company since January 2010 and was appointed as the Chairman of the Company with effect from 7 July 2012. He also holds directorships in various subsidiaries of the Company. He was the Chief Executive Officer of the Company from March to July 2012. Mr. Yu joined the Group in March 1996 and was responsible for the upstream chilled and frozen meat business of the Group. He has 18 years of experience in the industry. He graduated from the School of Business Administration of Henan University with specialisation in economic management.

Mr. Li Shibao, aged 38, joined the Group in August 1999 and was appointed as the Chief Executive Officer of the Company with effect from 7 July 2012. He holds a bachelor's degree in economics from Nanjing University of Chemical Technology (currently known as the Nanjing University of Technology) and a bachelor's degree in law from Nanjing University. Mr. Li has 15 years of experience in the meat product industry. Mr. Li was appointed as an executive Director of the Company with effect from 23 March 2013.

Mr. Feng Kuande, aged 58, 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 20 years of experience in the industry.

Mr. Ge Yuqi, aged 58, 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 33 years of experience in the industry.

Non-executive Directors

Mr. Wang Kaitian, aged 56, 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 Textiles Imp/Exp Corp., Ltd., a company listed on the Shanghai Stock Exchange.

Mr. Li Chenghua, aged 49, 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 45, 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 51, 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 52, 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 2013 annual report, together with the report of the Directors and the audited financial statements of the Group for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise 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, primarily marketed under its key brand names, "Yurun", "Furun", "Wangrun" and "Popular Meat Packing". There has not been any significant change in the nature of the Group's principal activities during the year. Details of the activities of the principal subsidiaries are set out in Appendix 1 to the audited financial statements.

Results and Appropriations

The Group's profit for the year ended 31 December 2013 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 2013 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 34 to the financial statements.

Pre-emptive Rights

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

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries 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 35 to the financial statements. Details of the movements in the reserves of the Group during the year are also included in the Consolidated Statement of Changes in Equity on page 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 2013, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to approximately HK$7,709,280,000.

Major Customers and Suppliers

During the year, each of the sales to the five largest customers of the Group in aggregate and purchases from the five largest suppliers of the Group in aggregate represented less than 30% of the Group's total revenue 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

Yu Zhangli [R/N]	*Chairman*
Li Shibao	*Chief Executive Officer, appointed as executive Director on 23 March 2013*
Zhu Yiliang	*resigned as executive Director on 23 March 2013*
Feng Kuande	
Ge Yuqi	

Non-executive Directors

Wang Kaitian
Li Chenghua

Independent non-executive Directors

Gao Hui [A/R/N]
Qiao Jun [A/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 the independence guidelines set out in 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.

Report of the Directors

Biographical Details of Directors

Biographical details of the Directors of the Company as at the date of this annual report are set out on page 15 of this annual report. The senior management of the Group is also the executive Directors of the Company.

Directors' Service Contracts

During the year, the service contract of the Chairman and executive Director, Yu Zhangli, expired and he has entered into a new service contract with the Company for a fixed term of three years commencing on 8 January 2013. Li Shibao, who was appointed as executive Director on 23 March 2013, entered into a service contract with the Company for a fixed term of three years commencing on 23 March 2013. Each of the executive Directors Feng Kuande and Ge Yuqi entered into a service contract with the Company for a fixed term of three years commencing on 3 October 2012. Each of these contracts may be terminated by either party giving not less than three months' notice in writing.

Pursuant to the aforesaid service contracts entered into between the Company and each of the executive Directors (apart from Li Shibao), each of them is entitled to a basic remuneration of US$100,000 per annum. During the year, the Board (based on the recommendation of the Remuneration Committee) resolved to increase the basic remuneration of the executive Directors from US$100,000 per annum to US$110,000 per annum for the year 2013. Pursuant to the aforesaid service contract entered into between the Company and Li Shibao as executive Director, Li Shibao is entitled to a basic remuneration of US$110,000 per annum. The Company received a written confirmation from Feng Kuande in January 2014, pursuant to which he has agreed to waive part of his remuneration payable by the Company for the services rendered for the year ended 31 December 2013.

During the year, the non-executive Directors, Wang Kaitian and Li Chenghua, and the independent non-executive Directors, Qiao Jun and Chen Jianguo, whose letters of appointment expired on 7 January 2013, have entered into new letters of appointment with the Company, each for a fixed term of three years commencing on 8 January 2013. The independent non-executive Director, Gao Hui, entered into a letter of appointment with the Company for a fixed term of three years commencing on 3 October 2012. 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 above new letters of appointment entered into between the Company and each of the non-executive and independent non-executive Directors, each of Wang Kaitian, Li Chenghua, Qiao Jun and Chen Jianguo is entitled to a remuneration of RMB127,000 per annum and Gao Hui is entitled to a remuneration of HK$230,000 per annum. During the year, the Board (based on the recommendation of the Remuneration Committee) resolved to increase (i) the annual remuneration of the non-executive and independent non-executive Directors (except for Gao Hui) from RMB127,000 to RMB140,000 and (ii) the annual remuneration of Gao Hui from HK$230,000 to HK$253,000. The Company has also received written confirmations from Wang Kaitian and Li Chenghua in January 2014 respectively, pursuant to which they have agreed to waive all of their remuneration payable by the Company for the services rendered for the year ended 31 December 2013.

Details of the remuneration payable to the Directors for the year ended 31 December 2013 are set out in note 11 to the financial statements.

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, Feng Kuande, Gao Hui and Chen Jianguo will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

None of the Directors being proposed for re-election at the AGM 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

No 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 Group were entered into or subsisting during the year.

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

As at 31 December 2013, 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 The Stock Exchange of Hong Kong Limited ("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	Capacity	Interest in ordinary shares	Interest in underlying shares[2]	Total	Approximate percentage of interest
Yu Zhangli	Beneficial owner	89,000	13,925,000	14,014,000	0.77%
Li Shibao[1]	Beneficial owner	89,000	7,750,000	7,839,000	0.43%
Feng Kuande	Beneficial owner	—	8,500,000	8,500,000	0.47%
Ge Yuqi	Beneficial owner	—	9,000,000	9,000,000	0.49%

Notes:

(1) Li Shibao, Chief Executive Officer, was appointed as an executive Director of the Company on 23 March 2013.

(2) The interests in underlying shares represent the interests in the share options granted on 3 September 2011 and 25 March 2013 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 2013, none of the Directors and/or 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

After the Share Option Scheme mandate limit has been refreshed at the annual general meeting of the Company held on 21 May 2013 ("2013 AGM"), the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 182,275,565 shares, representing 10% of the issued share capital of the Company as at the date of the 2013 AGM and 10% of the issued share capital of the Company as at the date of this annual report.

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.

(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 (as defined below). The Group and/or the grantee may or may not be required to achieve performance target(s) in order for the grantee 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 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 of the Company 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 of the Company 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 of the Company.

(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.

In accordance with the Share Option Scheme, on 25 March 2013, share options to subscribe for a total of 59,600,000 ordinary shares were granted to certain Directors and eligible employees of the Group. On 14 June 2013, share options to subscribe for a total of 105,500,000 ordinary shares were granted to certain eligible employees of the Group. The following share options were outstanding under the Share Option Scheme during the year:

	Number of shares which may be issued pursuant to the share options							
Name or category of participant	**As at 1 January 2013**	**Granted during the year[1]**	**Exercised during the year**	**Lapsed during the year[3]**	**As at 31 December 2013**	**Exercise price per share[6]** HK$	**Date of grant** (DD.MM.YYYY)	**Option period [2] & [3]** (DD.MM.YYYY)
Directors								
Yu Zhangli	5,887,500	–	–	(1,962,500)	3,925,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	10,000,000	–	–	10,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	5,887,500	10,000,000	–	(1,962,500)	13,925,000			
Li Shibao (appointed on 23 March 2013)	375,000	–	–	(125,000)	250,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	7,500,000	–	–	7,500,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	375,000	7,500,000	–	(125,000)	7,750,000			
Feng Kuande	5,250,000	–	–	(1,750,000)	3,500,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	5,000,000	–	–	5,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	5,250,000	5,000,000	–	(1,750,000)	8,500,000			
Ge Yuqi	6,000,000	–	–	(2,000,000)	4,000,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	5,000,000	–	–	5,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	6,000,000	5,000,000	–	(2,000,000)	9,000,000			
Subtotal	17,512,500[4]	27,500,000	–	(5,837,500)	39,175,000[4]			
Other employees (including ex-employees)								
In aggregate	7,634,000	–	–	–	7,634,000	7.46	10.11.2006	10.11.2006 – 09.11.2016
	45,037,500[5]	–	–	(15,012,500)	30,025,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	32,100,000	–	–	32,100,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	–	105,500,000	–	–	105,500,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	52,671,500	137,600,000	–	(15,012,500)	175,259,000			
Total	70,184,000	165,100,000	–	(20,850,000)	214,434,000			

Report of the Directors

Notes:

(1) The fair value of the share options granted during the year was estimated to be approximately HK$142,708,000 and HK$248,106,000 respectively at each of the grant dates (25 March 2013 and 14 June 2013) using the binomial model. The related measurement inputs and assumptions were as follows:

Date of grant	**25.03.2013**	**14.06.2013**
Share price at grant date	HK$5.03	HK$4.86
Exercise price per share	HK$5.142	HK$5.002
Expected volatility (expressed as weighted average volatility used in the modelling under the binomial model)	55.3%	55.4%
Option life (expressed as weighted average life used in the modelling under the binomial model)	10 years	10 years
Expected dividends	1.0%	1.0%
Risk-free interest rate (based on Exchange Fund Notes)	1.212%	1.605%

The expected volatilities are based on the historical volatility (calculated based on the weighted average remaining life of the share 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.

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

(3) Subject to the satisfaction of other conditions such as performance targets of the Group and/or individual grantees, if any, as set out in the respective offer letters, the share options granted on 3 September 2011, 25 March 2013 and 14 June 2013 will be vested in 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 (for share options granted on 3 September 2011) and 2013, 2014, 2015 and 2016 respectively (for the share options granted on 25 March 2013 and 14 June 2013). During the year, the second tranche (25%) of the share options granted on 3 September 2011, which should have been vested after the publication of the annual results of the year 2012, had lapsed due to the Group's performance targets not having been achieved.

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

(5) Including 6,075,000 share options granted to Zhu Yiliang, who resigned as Director of the Company on 23 March 2013.

(6) The closing price of the shares of the Company immediately before the date of grant (i.e. 9 November 2006, 2 September 2011, 22 March 2013 and 13 June 2013 respectively) were HK$7.58, HK$18.04, HK$5.17 and HK$4.83 respectively.

(7) 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 2013 are set out in the paragraph headed "Share Option Scheme" on pages 20 to 22 of this annual report and note 33 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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 2013, 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 Limited	Long position	470,699,900[1]	25.82%
Zhu Yicai	Long position	470,699,900[1]	25.82%
Wu Xueqin	Long position	470,699,900[1]	25.82%
Credit Suisse Group AG[2]	Long position	100,168,472	5.50%
	Short position	52,438,522	2.88%

Notes:

(1) These shares represent the shares of the Company held by Willie Holdings Limited ("Willie Holdings") as beneficial owner. Willie Holdings is owned as to 93.41% by Zhu Yicai ("Mr. Zhu"), the former executive Director and Chairman of the Company, and as to 6.59% by Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. 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. Ms. Wu, being the spouse of Mr. Zhu, is also 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 corporations controlled directly or indirectly as to 100% by Credit Suisse Group AG.

Save as disclosed above, as at 31 December 2013, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares and underlying shares of the Company.

Report of the Directors

Continuing Connected Transactions

Certain related party transactions as disclosed in note 39(a) to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules:

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 engaged in poultry product operations) (the "Purchase Agreement"). Pursuant to the Purchase Agreement, the entities controlled by Mr. Zhu 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 with 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 these entities controlled by Mr. Zhu charges other independent parties for the same kind of products during that month on normal commercial terms in the ordinary and usual course of their businesses. The Purchase Agreement has a term of three years, commencing on 1 January 2011 and ending on 31 December 2013. Details of the Purchase Agreement have been disclosed in the Company's announcement dated 20 December 2010. The annual caps of transaction amounts for the financial years ended 31 December 2011, 2012 and 2013 were RMB280 million, RMB364 million and RMB473.2 million respectively.

The aggregate purchase amount pursuant to the Purchase Agreement during the year amounted to approximately RMB134,919,000 (equivalent to approximately HK$169,094,000).

The Purchase Agreement expired on 31 December 2013. Prior to its expiration, on 16 December 2013, the Company entered into a new purchase agreement (the "Poultry Purchase Agreement") with Mr. Zhu (for and on behalf of certain entities incorporated in the PRC and owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of manufacturing and sales of poultry meat and poultry products (the "Relevant Entities")) for the continue sourcing of raw poultry meat and poultry products from the Relevant Entities. The Poultry Purchase Agreement has a term of three years, commencing on 1 January 2014 and ending on 31 December 2016. Details of the Poultry Purchase Agreement have been disclosed in the Company's announcement dated 16 December 2013. The annual caps of transaction amounts for the financial years ending 31 December 2014, 2015 and 2016 (the "Annual Caps") are RMB156 million, RMB203 million and RMB243 million respectively.

The Relevant Entities are beneficially owned or controlled by Mr. Zhu, a substantial shareholder (who indirectly controls approximately 25.82% interest in the Company through Willie Holdings) and a former executive Director of the Company, and his associates. These companies are therefore connected persons of the Company as defined in the Listing Rules. As one or more of the applicable percentage ratios in respect of the Annual Caps of the Poultry Purchase Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Poultry Purchase Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Purchase of hogs from the Seller Group (as defined below)

On 14 November 2012, the Company entered into an agreement with Mr. Zhu (on behalf of the entities owned and controlled by him which are principally engaged in the business of hog breeding (the "Seller Group")) (the "Framework Purchase Agreement"). Pursuant to the Framework Purchase Agreement, the Seller Group has agreed to supply to the Group and the Group has agreed to purchase hogs, from time to time, for its production use. The price shall be determined based on the following basis: (i) the price prescribed by the central and local governments of the PRC (the "PRC Government"); (ii) in the event that the PRC Government-prescribed price is not available, the price recommended by the PRC Government; or (iii) in the event that neither the PRC Government-prescribed price nor the PRC Government-recommended price is available, the price shall be determined and negotiated between the Company and Mr. Zhu by reference to the market price at the time the purchase order is placed, provided that such price shall not be higher than the average price paid by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of hogs in that month. The Framework Purchase Agreement has a term of three years, commencing on 1 January 2013 and ending on 31 December 2015. Details of the Framework Purchase Agreement have been disclosed in the Company's announcement dated 15 November 2012.

Mr. Zhu is a substantial shareholder (who indirectly controls approximately 25.82% interest in the Company through Willie Holdings) and a former executive Director of the Company. The Seller Group, which is beneficially owned and controlled by Mr. Zhu is therefore a connected person of the Company under the Listing Rules.

The annual cap of transaction amounts for the financial year ended 31 December 2013 was RMB3,670 million and the annual caps for the financial years ending 31 December 2014 and 2015 are RMB5,423 million and RMB8,613 million respectively. The aggregate purchase amount pursuant to the Framework Purchase Agreement during the year amounted to approximately RMB101,452,000 (equivalent to approximately HK$127,148,000).

The transactions detailed under the headings "Purchase of raw poultry meat from the Relevant Entities" and "Purchase of hogs from the Seller Group" constituted continuing connected transactions of the Group. The independent non-executive Directors have reviewed these 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 on 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 this 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.

Details of the significant related party transactions undertaken in the normal course of business are provided under note 39(a) to the financial statements. None of these related party transactions constitutes a connected transaction as defined which required to be disclosed under the Listing Rules, except for those described in the section headed "Continuing Connected Transactions" in this annual report, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

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

Report of the Directors

Post Balance Sheet Event

Details of the post balance sheet event of the Group are set out in note 40 to the financial statements.

Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained 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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as set out in the paragraph headed "Corporate Governance Practices" in the "Corporate Governance Report" on page 27 of this annual report.

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 27 to 36 of this annual report.

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.

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 AGM.

By Order of the Board

Yu Zhangli
Chairman
Hong Kong, 21 March 2014

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 2013 to 31 December 2013 (the "Review Year"), the Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as certain independent non-executive Director, non-executive Directors and the executive Director and Chairman of the Board were absent from the annual general meeting of the Company held on 21 May 2013 as they had overseas or other engagements. Please refer to page 29 of this annual report for further information.

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 nine Directors including, Yu Zhangli (Chairman), Li Shibao, Feng Kuande and Ge Yuqi as executive Directors, Wang Kaitian and Li Chenghua as non-executive Directors, and Gao Hui, Qiao Jun and Chen Jianguo as independent non-executive Directors. The biographical details of the Board members are set out on page 15 of this annual report. With the exception of Li Shibao who was appointed as an executive Director with effect from 23 March 2013, all the Directors as at the date of this annual report served throughout the Review Year. During the Review Year, Zhu Yiliang resigned as an executive Director with effect from 23 March 2013.

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. The terms of reference of the Board committees are available on the websites of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the Company. 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, Lee Wing Sze, Rosa is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. In respect of the Review Year, Ms. Lee has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Chairman and Chief Executive Officer

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 team, is responsible for the business operation of the Group, including implementation of the strategies adopted by the Board.

The Chairman of the Board is Yu Zhangli, and the Chief Executive Officer is Li Shibao. 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 strategies and policies by providing their independent, constructive and informed opinions. One of the independent non-executive Directors, Gao Hui 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 each of them has 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. Subject to rotation and re-election in accordance with the Bye-laws of the Company, each of the non-executive Directors, Wang Kaitian and Li Chenghua, entered into a letter of appointment with the Company for a term of three years effective on 8 January 2013.

The members of the Board (including the Chairman and the Chief Executive Officer) do not have any relationship (including financial, business, family and other material/relevant relationships) with each other as required to be disclosed pursuant to the CG Code.

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, the Board committee meetings and the annual general meeting during the Review Year are as follows:

	Number of regular Board meetings*, Board committee meetings and annual general meeting attended/held during the Review Year				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Yu Zhangli *(Chairman)*	4/4	N/A	2/2	1/1	0/1
Li Shibao *(appointed on 23 March 2013)*	3/3+	N/A	N/A	N/A	1/1
Zhu Yiliang *(resigned on 23 March 2013)*	1/1+	N/A	N/A	N/A	—+
Feng Kuande	4/4	N/A	N/A	N/A	0/1
Ge Yuqi	4/4	N/A	N/A	N/A	0/1
Non-executive Directors					
Wang Kaitian	4/4	N/A	N/A	N/A	0/1
Li Chenghua	4/4	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Gao Hui	4/4	4/4	2/2	1/1	1/1
Qiao Jun	4/4	4/4	2/2	N/A	0/1
Chen Jianguo	4/4	4/4	N/A	1/1	1/1

* *Ad hoc meetings are not included*

\+ *Attendance taken during term of service for the Review Year*

Directors' Training and Continuous Professional Development

Every Director fully observes his responsibilities as a Director of the Company and keeps abreast of the conduct, business activities and development of the Company. Directors are continually updated with regulatory and governance developments. They are encouraged to participate in professional development courses and seminars to develop and refresh their knowledge and skills. The Company has devised a training record to assist the Directors to record and monitor the training they have undertaken on an annual basis.

During the Review Year, the Company provided all members of the Board with monthly updates on the Company's performance, financial position and prospects. In addition, all Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director and have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

Each newly appointed Director is provided with comprehensive induction and information to ensure that he has a proper understanding of the Company's business as well as his responsibilities under the relevant statutes, laws, rules and regulations. During the Review Year, Li Shibao received an induction on the responsibilities and obligations of Directors under the Listing Rules and the relevant regulatory requirements provided by the legal advisor to the Company.

Corporate Governance Report

Board Committees and Corporate Governance Functions

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 written terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee, which have been reviewed from time to time by the Board to keep them in line with the most up-to-date requirements, are available on the Hong Kong Stock Exchange's and the Company's websites.

The Board has delegated the corporate governance duties to the Audit Committee and the Audit Committee is responsible for performing the corporate governance duties set out in the CG Code which include developing and reviewing the Company's policies and practices on corporate governance (including those on compliance with legal and regulatory requirements), monitoring the Company's compliance with the CG Code and reviewing the disclosure in this report.

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)* Chen Jianguo* Qiao Jun*	Qiao Jun* *(Chairman)* Gao Hui* Yu Zhangli+	Chen Jianguo* *(Chairman)* Gao Hui* Yu Zhangli+
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 audit function • To perform the corporate governance duties which included developing and reviewing the Company's policies and practices on corporate governance, reviewing the Company's compliance with the CG Code and reviewing the disclosure in the Corporate Governance Report and reviewing and monitoring the training and continuous professional development of the Directors and senior management	• 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 determine the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment	• To review the structure, size and composition (including skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy • To identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise • To assess the independence of the independent non-executive Directors • To make recommendations to the Board on the succession planning for Directors and senior management of the Group

* *Independent non-executive Director*

\+ *Executive Director*

	Audit Committee	Remuneration Committee	Nomination Committee
Work performed during the Review 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 the Company's compliance with the CG Code and disclosure in the Corporate Governance Report • Reviewed and monitored the training and continuous professional development of the Directors and senior management	• 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 Directors retiring at the annual general meeting with reference to their past performance • Reviewed the terms of reference of the Nomination Committee in light of the relevant amendments to the Listing Rules and recommended the Board to amend such terms • Reviewed the Company's policies and practices on corporate governance and made recommendations to the Board, for instance, recommended the Board to establish and assisted the drafting of the Board diversity policy

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 candidates of new Directors. The major criteria include professional background, in particular experience in the Group's industry, and recommendations from the management team and other knowledgeable individuals. The Nomination Committee shortlists suitable candidates and submits the same to the Board for discussion and final approval.

During the Review Year, the Board adopted a Board diversity policy setting out the approach to achieve diversity of members of the Board. The Company recognises and embraces the benefits of diversity of Board members. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be made upon the merit and contribution that the selected candidates will bring to the Board. In determining the Board's composition, the Company will also take into account factors based on its own business model and specific needs from time to time. The Nomination Committee will review the Board diversity policy, as appropriate, to ensure its effectiveness.

Auditors' Remuneration

Details of the fees paid or payable to the Group's external auditors for the Review Year are as follows:

Services provided	**Fees** HK$'000
2013 annual audit	7,570
Non-audit services*	1,827
Total	9,397

* *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, and, where appropriate, the relevant laws and regulations and best practices are complied with. With respect to the procedures and internal controls for handling and dissemination of inside information, the Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance and the Listing Rules and has established the inside information disclosure policy with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.

The Company considers the whistleblowing channels as a useful means of identifying possible misconduct or fraud risks of a particular operation or function by encouraging employees to raise concerns in good faith. The Audit Committee is responsible for monitoring and reviewing the effectiveness of the whistleblowing policy and the whistleblowing system periodically.

The Company has adopted a whistleblowing policy setting out principles and procedures to guide the Directors, employees of the Company and persons dealing with the Company in reporting cases of possible improprieties and misconduct in a fair and proper manner. According to the whistleblowing policy, concerns can be raised either verbally or in writing to the chairman of the Audit Committee or the Chairman of the Board (if the report concerns the chairman of the Audit Committee or a member of the Audit Committee). Upon receiving the report, the chairman of the Audit Committee or such other person as designated by the Audit Committee shall discuss the report with the Audit Committee (unless the report concerns the Audit Committee) to evaluate if an investigation is warranted. If an investigation is considered necessary, the chairman of the Audit Committee or such other person as designated by the Audit Committee shall conduct an investigation to establish whether any misconduct has occurred. The chairman of the Audit Committee or such other person as designated by the Audit Committee shall report findings of an investigation to the Audit Committee. On the basis of the findings, the Audit Committee shall make recommendations to the Board on actions to be taken. If the investigation concerns the Audit Committee, findings of the investigation shall be reported to the Chairman of the Board. Where there is evidence of a possible criminal offence, the matter may be referred to the relevant authorities for further actions.

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 the 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 minimising 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.

Corporate Governance Report

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. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably and effectively implemented.

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 Auditor's Report on pages 37 to 38 of this annual report.

Communication with Shareholders and Investor Relations

The Company has adopted a Shareholders Communication Policy with the objective of ensuring that the Company's shareholders are provided with ready, equal and timely access to balanced and comprehensible information about the Company.

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 held in various regions including Mainland China, Hong Kong, the United Kingdom and the United States, and organised site visits for shareholders and institutional investors to visit 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 publication of 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 relevant slide presentations. The Company's investor relations webpage is regularly reviewed, improved and updated so as to include all key information such as corporate calendar, public announcements, stock price information, operation statistics, slide presentations and financial reports. The Company believes that its proactive communications with the investors can help enhancing corporate transparency and the Company's potential and actual value can be better understood by the market.

During the Review Year, there is no significant change in the Company's constitutional documents.

Shareholders' Rights

(i) Convening a special general meeting ("SGM")

Pursuant to the Bye-laws of the Company and the Bermuda Companies Act 1981, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Board or the Company Secretary of the Company, to require a SGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. The written requisition must state the purposes of the meeting, signed by the requisitionists and may consist of several documents in like form, each signed by one or more requisitionists.

If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the requisition is invalid, the requisitionists will be advised of this outcome and accordingly, the SGM will not be convened as requested.

If the Board do not proceed duly to convene a SGM within twenty-one days from the date of the deposit of the requisition, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any meeting so convened shall not be held after the expiration of three months from the said date of the deposit of the requisition.

(ii) Putting forward proposals at general meetings

Pursuant to the Bermuda Companies Act 1981, any number of the registered shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, or not less than 100 of such registered shareholders, can request the Company in writing to (a) give to shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition signed by all the requisitionists must be deposited at the registered office of the Company with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if an annual general meeting is called for a date six weeks or less after the requisition has been deposited, the requisition, though not deposited within the time required, shall be deemed to have been properly deposited for the purposes thereof.

(iii) Proposing a person for election as a Director

Pursuant to the Bye-laws of the Company, if a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment/election of Director(s), wishes to propose a person (other than the shareholder himself/herself) for election as a Director at that meeting, he/she can deposit a written notice at the Company's head office at 10 Yurun Road, Jianye District, Nanjing, the People's Republic of China or at the Company's branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Board or the Company Secretary of the Company.

Corporate Governance Report

In order for the Company to inform all shareholders of that proposal, the written notice must state the full name of the person proposed for election as a Director, his/her biographical details as required by Rule 13.51(2) of the Listing Rules and be signed by the shareholder concerned and that person indicating his/her willingness to be elected.

The period for lodgment of such a written notice will commence no earlier than the day after the despatch of the notice of the general meeting and end no later than seven days prior to the date of such general meeting.

(iv) Directing enquiries from shareholders to the Board

Shareholders may at any time send their enquiries in writing to the Investor Relations Department of the Company at the Company's principal place of business in Hong Kong at Room 4006, 40th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong.

In addition, shareholders may direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, which is currently situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Independent Auditor's Report

KPMG

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 2013, 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 the 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 2013 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

21 March 2014

Consolidated Balance Sheet

At 31 December 2013
(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Non-current assets			
Property, plant and equipment	16	**15,926,126**	14,518,311
Investment properties	17	**205,944**	207,026
Lease prepayments	18	**3,881,766**	3,758,763
Goodwill	20	**96,736**	93,801
Interest in an associate	21	**–**	5,127
Interest in a joint venture	22	**18,268**	21,865
Non-current prepayments	23	**424,651**	401,101
Deferred tax assets	24	**28,064**	24,691
		20,581,555	19,030,685
Current assets			
Inventories	25	**1,170,362**	1,665,230
Current portion of lease prepayments	18	**87,579**	83,216
Trade and other receivables	26	**2,608,302**	2,027,420
Income tax recoverable	10	**4,365**	4,215
Pledged deposits	27	**11,483**	21,593
Time deposits		**33,629**	3,191
Cash and cash equivalents	28	**2,444,694**	2,812,267
		6,360,414	6,617,132
Current liabilities			
Bank loans	29	**3,415,390**	3,617,538
Finance lease liabilities	31	**634**	588
Trade and other payables	32	**2,244,741**	2,632,318
Income tax payable	10	**11,091**	19,463
		5,671,856	6,269,907
Net current assets		**688,558**	347,225
Total assets less current liabilities		**21,270,113**	19,377,910

Consolidated Balance Sheet

At 31 December 2013
(Expressed in Hong Kong dollars)

	Note	**2013** **$'000**	2012 $'000
Non-current liabilities			
Bank loans	29	**1,977,820**	1,878,564
Medium term notes	30	**2,921,312**	1,603,355
Finance lease liabilities	31	**181,763**	176,863
Deferred tax liabilities	24	**177,904**	172,681
		5,258,799	3,831,463
NET ASSETS		**16,011,314**	15,546,447
EQUITY			
Share capital	34	**182,276**	182,276
Reserves	35	**15,767,735**	15,306,908
Total equity attributable to equity holders of the Company		**15,950,011**	15,489,184
Non-controlling interests		**61,303**	57,263
TOTAL EQUITY		**16,011,314**	15,546,447

Approved and authorised for issue by the Board of Directors on 21 March 2014.

Yu Zhangli
Director

Li Shibao
Director

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

Balance Sheet

At 31 December 2013
(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Non-current asset			
Investments in subsidiaries	19	**709,847**	709,847
Current assets			
Other receivables	26	**467**	1,201
Amounts due from subsidiaries		**7,090,149**	7,185,714
Cash and cash equivalents	28	**97,156**	12,723
		7,187,772	7,199,638
Current liabilities			
Other payables	32	**6,063**	8,231
Net current assets		**7,181,709**	7,191,407
Total assets less current liabilities		**7,891,556**	7,901,254
NET ASSETS		**7,891,556**	7,901,254
EQUITY			
Share capital	34	**182,276**	182,276
Reserves	35	**7,709,280**	7,718,978
TOTAL EQUITY		**7,891,556**	7,901,254

Approved and authorised for issue by the Board of Directors on 21 March 2014

Yu Zhangli
Director

Li Shibao
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 2013
(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Turnover	6	**21,440,039**	26,781,632
Cost of sales		**(20,674,384)**	(26,383,899)
Gross profit		**765,655**	397,733
Other net income	7	**1,203,571**	944,292
Distribution expenses		**(704,798)**	(743,508)
Administrative and other operating expenses		**(1,002,160)**	(1,020,740)
Results from operating activities		**262,268**	(422,223)
Finance income		**77,046**	64,564
Finance costs		**(231,313)**	(209,476)
Net finance costs	8(a)	**(154,267)**	(144,912)
Share of loss of an associate (net of income tax)	21	**(290)**	(250)
Share of loss of a joint venture (net of income tax)	22	**(4,218)**	(2,185)
Profit/(loss) before income tax	8	**103,493**	(569,570)
Income tax expense	9	**(64,059)**	(41,537)
Profit/(loss) for the year		**39,434**	(611,107)
Attributable to:			
Equity holders of the Company		**43,592**	(605,455)
Non-controlling interests		**(4,158)**	(5,652)
Profit/(loss) for the year		**39,434**	(611,107)
Earnings/(loss) per share			
Basic	15(a)	**$0.024**	$(0.332)
Diluted	15(b)	**$0.024**	$(0.332)

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 2013
(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Profit/(loss) for the year		**39,434**	(611,107)
Other comprehensive income for the year (after reclassification adjustments)	14		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**433,263**	(14,193)
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries		**(14,299)**	–
		418,964	(14,193)
Total comprehensive income for the year		**458,398**	(625,300)
Attributable to:			
Equity holders of the Company		**460,827**	(619,598)
Non-controlling interests		**(2,429)**	(5,702)
Total comprehensive income for the year		**458,398**	(625,300)

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 2013
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company									
		Share capital (Note 34)	Share premium (Note 35(b))	Capital surplus (Note 35(c))	Merger reserve (Note 35(d))	PRC statutory reserves (Note 35(e))	Exchange reserve (Note 35(f))	Retained earnings	Total	Non-controlling interests	Total equity
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2012		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
Loss for the year		–	–	–	–	–	–	(605,455)	(605,455)	(5,652)	(611,107)
Total other comprehensive income for the year		–	–	–	–	–	(14,143)	–	(14,143)	(50)	(14,193)
Total comprehensive income for the year		–	–	–	–	–	(14,143)	(605,455)	(619,598)	(5,702)	(625,300)
Transfer to reserves		–	–	–	–	61,609	–	(61,609)	–	–	–
At 31 December 2012		182,276	7,400,418	3,887	(112,202)	832,423	1,465,948	5,716,434	15,489,184	57,263	15,546,447
At 1 January 2013		**182,276**	**7,400,418**	**3,887**	**(112,202)**	**832,423**	**1,465,948**	**5,716,434**	**15,489,184**	**57,263**	**15,546,447**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**43,592**	**43,592**	**(4,158)**	**39,434**
Total other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**417,235**	**-**	**417,235**	**1,729**	**418,964**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**417,235**	**43,592**	**460,827**	**(2,429)**	**458,398**
Transfer to reserves		**-**	**-**	**-**	**-**	**42,560**	**-**	**(42,560)**	**-**	**-**	**-**
Disposal of subsidiaries	7	**-**	**-**	**-**	**42,338**	**(11,385)**	**-**	**(30,953)**	**-**	**-**	**-**
Acquisition of a subsidiary	21	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,469**	**6,469**
At 31 December 2013		**182,276**	**7,400,418**	**3,887**	**(69,864)**	**863,598**	**1,883,183**	**5,686,513**	**15,950,011**	**61,303**	**16,011,314**

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 2013
(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Cash flows from operating activities			
Profit/(loss) for the year		**39,434**	(611,107)
Adjustments for:			
Depreciation		**533,192**	462,978
Gain on disposal of subsidiaries	7	**(444,225)**	–
Amortisation of lease prepayments		**85,099**	76,295
Impairment losses on trade receivables		**27,644**	3,297
Interest income		**(23,114)**	(39,916)
Investment income from available-for-sale financial assets		**(23,379)**	(23,413)
Finance costs		**231,313**	197,682
Share of loss of an associate		**290**	250
Share of loss of a joint venture		**4,218**	2,185
Loss on disposal of property, plant and equipment		**1,732**	4,297
Unrealised foreign exchange (gain)/loss		**(26,490)**	3,172
Income tax expense		**64,059**	41,537
Change in fair value of financial derivatives		**–**	(1,235)
Operating profit before change in working capital		**469,773**	116,022
Change in inventories		**538,103**	(211,799)
Change in trade and other receivables		**(565,726)**	(556,171)
Change in trade and other payables		**(268,568)**	(200,224)
Cash generated from/(used in) operating activities		**173,582**	(852,172)
Finance costs paid		**(393,716)**	(412,848)
Income tax paid		**(75,801)**	(24,191)
Net cash used in operating activities		**(295,935)**	(1,289,211)

Consolidated Cash Flow Statement

For the year ended 31 December 2013
(Expressed in Hong Kong dollars)

	Note	**2013** **$'000**	2012 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**9,425**	6,567
Proceeds from sale of available-for-sale financial assets		**1,323,667**	1,388,703
Proceeds from disposal of subsidiaries	36	**605,133**	–
Interest received		**23,114**	39,916
Acquisition of property, plant and equipment		**(1,597,340)**	(2,207,226)
Payments for lease prepayments		**(154,872)**	(213,438)
Acquisition of available-for-sale financial assets		**(1,300,288)**	(1,365,290)
Changes in time deposits		**(29,893)**	87,329
Net cash used in investing activities		**(1,121,054)**	(2,263,439)
Cash flows from financing activities			
Proceeds from bank loans		**4,673,033**	5,656,249
Proceeds from medium term notes		**1,244,642**	1,593,044
Repayments of bank loans		**(4,943,866)**	(6,087,729)
Capital element of finance lease rentals paid		**(597)**	(560)
Interest element of finance lease rentals paid		**(6,620)**	(6,518)
Changes in pledged deposits		**10,626**	156,511
Net cash generated from financing activities		**977,218**	1,310,997
Net decrease in cash and cash equivalents		**(439,771)**	(2,241,653)
Cash and cash equivalents at 1 January		**2,812,267**	5,068,812
Effect of exchange rate fluctuations on cash held		**72,198**	(14,892)
Cash and cash equivalents at 31 December	28	**2,444,694**	2,812,267

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 2013 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate and a joint venture. 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 21 March 2014.

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") ("Listing Rules").

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that the available-for-sale financial assets (see accounting policy 3(d)(ii)) are stated at fair value in the consolidated balance sheet.

(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 41.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

– IFRS 10, *Consolidated financial statements*

– IFRS 11, *Joint arrangements*

– IRFS 12, *Disclosure of interests in other entities*

– IAS 28 (2011), *Investment in associates and joint ventures*

– IFRS 13, *Fair value measurement*

– *Annual Improvements to IFRSs 2009-2011 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other new or amended IFRSs are discussed below:

Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and Standing Interpretations Committee interpretations ("SIC") – 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

3 Significant accounting policies (continued)

(a) Change in accounting policies (continued)

IFRS 11, Joint arrangements

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 21 and 22.

IAS 28 (2011), Investment in associates and joint ventures

IAS 28 (2011) was issued as part of the above package of standards. It is substantially the same as IAS 28 (2008) except for the following.

IAS 28 (2011) includes expanded guidance on how to apply IFRS 5, *Non-current assets held for sale and discontinued operations*, to an investment or a portion of an investment in an associate or a joint venture meets the criteria to be classified as held for sale; and IAS 28 (2011) modifies the accounting requirement when there are changes in interest which result in a change in the nature of the investment but equity method continues to be applied (i.e. an associate becomes a joint venture, or vice versa). In such cases, under IAS 28 (2011), there is no re-measurement of the retained interest to fair value.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 17 and 37.

Annual Improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(b) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see accounting policy (b)(ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see accounting policy (k)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see accounting policy (d)).

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

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 in 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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 a joint venture (see accounting policy (b)(iii)).

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment losses (see accounting policy (k)).

(iii) Investments in associates and joint ventures

The Group's interests in equity-accounted investees comprise interests in an associate and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an associate or a joint venture, the carrying amount of that investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate or joint venture.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(iv) Joint operation

A joint operation is a joint arrangement in which the Group have rights to the assets and obligations for the liabilities relating to the arrangement. In respect of the accounting for a joint operation, the Group is required to recognise its own assets, liabilities and transactions, including its share of those incurred jointly.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

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

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated.

However, foreign currency differences arising from the translation of available-for-sale equity investments are recognised 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 balance sheet date. The income and expenses of foreign operations are retranslated 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 foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of in its entirety or partially 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(d) Financial instruments

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.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

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 of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separated asset or liability.

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

Financial assets and financial 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 them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurement

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Non-derivative financial assets – measurement (continued)

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.

(iii) Non-derivative financial liabilities – measurement

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

(iv) Share capital

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

(v) Derivative financial instruments

Derivatives are recognised initially at fair value; any 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 generally recognised 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)).

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

If significant 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(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.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. 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. Land is not depreciated.

The estimated useful lives 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.

(f) Goodwill

Goodwill arises upon the acquisition of subsidiaries is initially recognised in accordance with accounting policy (b)(i). Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses (see accounting policy (k)).

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(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 initially measured at cost less accumulated depreciation and impairment losses (see accounting policy (k)).

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 reassessed at each balance sheet date and adjusted if appropriate.

(h) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially 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.

Assets held under other leases are classified as operating leases and are not recognised in 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.

(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 distribution expenses.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(k) Impairment

(i) Non-derivative financial assets

Financial asset not classified at fair value through profit or loss, including an interest in an equity-accounted investee is assessed at each balance sheet date to determine whether there is objective evidence of impairment. 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, the disappearance of an active market for a security or observable data indicating that these is measurable decrease in expected cash flows from a group of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

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 asset and a collective level. All individually significant assets are individually assessed for an individual impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually 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 information on the timing of recoveries and the amount of loss incurred, and make an adjustment if 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 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. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

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 to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

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)

Equity-accounted investee

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with accounting policy 3(k)(ii). An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

At balance sheet date, the Group reviews the carrying amounts of its non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet 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 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 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. 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. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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) Sales of goods

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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, investment income from available-for-sale financial assets and fair value gains on financial instruments. Interest income is recognised using the effective interest method.

Finance costs comprise interest expense on borrowings, bank charges, interest expense on lease obligation 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 on financial assets and financial liabilities 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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, and any adjustment to tax payable in respect of previous years. It is measured using tax rates enacted or substantially enacted at the balance sheet date. Current tax payable also includes any tax arising from 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, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

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 balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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. 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 Measurement 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. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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 resource 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 joint venture are not allocated as segment expenses.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Operating segments (continued)

(a) Segment results (continued)

– The measure used for reportable segment (loss)/profit is adjusted (loss)/profit before interests, taxes and share of loss of an associate and a joint venture 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.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

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.

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 2013 and 2012 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2013	2012	**2013**	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenues	**18,507,916**	24,101,621	**2,932,123**	2,680,011	**21,440,039**	26,781,632
Inter-segment revenue	**656,449**	684,992	**17,019**	8,361	**673,468**	693,353
Reportable segment revenue	**19,164,365**	24,786,613	**2,949,142**	2,688,372	**22,113,507**	27,474,985
Depreciation and amortisation	**(504,683)**	(437,055)	**(97,693)**	(89,686)	**(602,376)**	(526,741)
Net impairment losses on trade receivables	**(1,394)**	(2,794)	**(26,250)**	(503)	**(27,644)**	(3,297)
Government subsidies	**630,747**	812,595	**72,508**	74,174	**703,255**	886,769
Reportable segment (loss)/profit	**(166,532)**	(283,654)	**56,658**	(85,581)	**(109,874)**	(369,235)
Income tax expenses	**(4,460)**	(10,892)	**(59,115)**	(29,945)	**(63,575)**	(40,837)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Operating segments (continued)

(b) Reconciliations of reportable segment revenue and profit/(loss)

	2013 $'000	2012 $'000
Revenue		
Total revenue from reportable segments	**22,113,507**	27,474,985
Elimination of inter-segment revenue	**(673,468)**	(693,353)
Consolidated revenue	**21,440,039**	26,781,632
Profit/(loss)		
Reportable segment loss	**(109,874)**	(369,235)
Elimination of inter-segment profits	**(7,329)**	22,592
Reportable segment loss derived from the Group's external customers	**(117,203)**	(346,643)
Share of loss of an associate	**(290)**	(250)
Share of loss of a joint venture	**(4,218)**	(2,185)
Net finance costs	**(154,267)**	(144,912)
Income tax expense	**(64,059)**	(41,537)
Unallocated head office and corporate expenses	**(64,754)**	(75,580)
Gain on disposal of subsidiaries	**444,225**	–
Consolidated profit/(loss) for the year	**39,434**	(611,107)

(c) Geographical information

The Group's revenue and profit/(loss) are derived entirely from the manufacturing and sales of chilled and frozen meat and processed meat products in the PRC. Almost all of the Group's non-current assets are located in the PRC.

(d) Information about major customers

During the years ended 31 December 2013 and 2012, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 Other net income

	2013 $'000	2012 $'000
Government subsidies	**710,438**	886,769
Gain on disposal of subsidiaries	**444,225**	–
Rental income	**19,377**	23,111
Sales of scrap	**2,638**	5,914
Sundry income	**26,893**	28,498
	1,203,571	944,292

In 2013, the Group disposed of its entire equity interest in its two wholly owned subsidiaries in chilled and frozen meat segment to independent third parties, at a total cash consideration of HK$606,787,000 and gain on disposal of subsidiaries amounting to HK$444,225,000 were recognised in profit or loss during the year (2012: HK$Nil) respectively.

8 Profit/(loss) before income tax

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

(a) Net finance costs

	2013 $'000	2012 $'000
Interest on bank loans and medium term notes wholly repayable within five years	**378,982**	380,331
Interest on bank loans not wholly repayable within five years	**64,493**	51,745
Interest on lease obligations	**6,620**	6,518
Less: Interest expense capitalised into property, plant and equipment under development*	**(220,885)**	(244,687)
	229,210	193,907
Bank charges	**2,103**	3,775
Net foreign exchange (gain)/loss	**(30,553)**	11,794
Interest income from bank deposits	**(23,114)**	(39,916)
Investment income from available-for-sale financial assets	**(23,379)**	(23,413)
Change in fair value of financial derivatives	**–**	(1,235)
	154,267	144,912

* The borrowing costs have been capitalised at a rate of 5.4% per annum (2012: 6.6%).

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(Expressed in Hong Kong dollars unless otherwise indicated)

8 Profit/(loss) before income tax (continued)

(b) Personnel expenses

	2013	2012
	$'000	$'000
Salaries, wages and other benefits	**773,388**	887,605
Contributions to defined contribution pension schemes	**83,320**	81,156
	856,708	968,761

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% (2012: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2013.

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 $25,000. 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

	2013	2012
	$'000	$'000
Cost of inventories#	**20,674,384**	26,383,899
Impairment losses on trade receivables	**28,111**	4,035
Reversal of impairment losses on trade receivables	**(467)**	(738)
Depreciation	**533,192**	462,978
Loss on disposal of property, plant and equipment	**1,732**	4,297
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**11,911**	13,693
– contingent rent	**8,358**	–
Amortisation of lease prepayments	**85,099**	76,295
Research and development expenses (other than amortisation costs)	**26,170**	29,757
Auditors' remuneration		
– audit services	**7,570**	6,907
– other services	**1,827**	1,962

Cost of inventories includes $588,662,000 (2012: $671,593,000) 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

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9 Income tax expense

Income tax expense in the consolidated income statement represents:

	Note	2013 $'000	2012 $'000
Current tax expense			
Current year	10	**66,645**	25,319
(Over)/under-provision in respect of prior years	10	**(121)**	813
		66,524	26,132
Deferred tax (credit)/expense			
Origination and reversal of temporary differences	24(b)	**(2,465)**	15,405
Income tax expense in the consolidated income statement		**64,059**	41,537

(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 2013 and 2012.

(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 2013 and 2012, 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 have started from 1 January 2008, even if the companies are not yet recording profit and the unutilised tax holidays can continue until expiry. The tax concession period was expired during the year ended 31 December 2012.

(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 2013 and 2012.

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 2013, temporary differences relating to the undistributed profits of subsidiaries amounted to $6,020,469,000 (2012: $5,377,823,000). Deferred tax liabilities of $141,277,000 (2012: $113,656,000) in respect of the undistributed profits of $2,825,530,000 (2012: $2,273,127,000) were not recognised as at 31 December 2013 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.

In accordance with the accounting policy set out in accounting policy 3(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $269,783,000 (2012: $360,645,000) due to the unpredictability of future taxable profit streams in the relevant tax jurisdiction and entity. The tax losses will be expired in 5 years.

(e) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC enterprise income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

Reconciliation between income tax expense and accounting profit/(loss) at applicable tax rate:

	2013 **$'000**	2012 $'000
Profit/(loss) before income tax	**103,493**	(569,570)
Income tax using the PRC enterprise income tax rate of 25% (2012: 25%)	**25,873**	(142,393)
Effect of tax rate differential	**16,932**	21,375
Non-taxable income	**(153,559)**	(228,588)
Non-deductible expenses	**7,750**	6,035
(Over)/under-provision in respect of prior years	**(121)**	813
Withholding tax on profits from PRC subsidiaries	**379**	5,439
Recognition of tax expense in relation to interest income from PRC subsidiaries	**105**	132
Effect of tax losses not recognised	**33,251**	87,104
Effect of utilisation of unrecognised tax losses in prior years	**(55,584)**	–
Effect of tax concessions	**189,033**	291,620
Income tax expense	**64,059**	41,537

Notes to the Consolidated Financial Statements

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10 Income tax (payable)/recoverable

Current taxation in the consolidated balance sheet represents:

The Group

	2013 **$'000**	2012 $'000
At beginning of the year	**(15,248)**	(13,231)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	**(66,645)**	(25,319)
Over/(under)-provision in respect of prior years	**121**	(813)
PRC income tax and withholding tax paid	**75,801**	24,191
Effect of movements in exchange rates	**(755)**	(76)
At end of the year	**(6,726)**	(15,248)
Represented by:		
Income tax recoverable	**4,365**	4,215
Income tax payable	**(11,091)**	(19,463)
	(6,726)	(15,248)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Directors' and chief executive's remuneration

Directors' and chief executive's remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and Appendix 16 to the Listing Rules is as follows:

	2013						
	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							
Yu Zhangli	–	2,034	41	–	2,075	–	2,075
Zhu Yiliang (resigned on 23 March 2013)	–	213	10	–	223	–	223
Feng Kuande	–	792	26	–	818	–	818
Ge Yuqi	–	1,941	41	–	1,982	–	1,982
Li Shibao (chief executive officer, appointed on 23 March 2013 as executive director)	–	916	41	–	957	–	957
Non-executive directors							
Wang Kaitian	–	–	–	–	–	–	–
Li Chenghua	–	–	–	–	–	–	–
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Qiao Jun	179	–	–	–	179	–	179
Chen Jianguo	179	–	–	–	179	–	179
Total	611	5,896	159	–	6,666	–	6,666

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(Expressed in Hong Kong dollars unless otherwise indicated)

11 Directors' and chief executive's remuneration (continued)

Directors' and chief executive's remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and Appendix 16 to the Listing Rules is as follows: (continued)

	2012						
	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 (resigned on 7 July 2012)	–	1,341	18	–	1,359	–	1,359
Yu Zhangli	–	1,194	29	–	1,223	–	1,223
Zhu Yiliang	–	1,276	38	–	1,314	–	1,314
Feng Kuande	–	605	22	–	627	–	627
Ge Yuqi	–	1,135	38	–	1,173	–	1,173
Non-executive directors							
Jiao Shuge (alias Jiao Zhen) (resigned on 22 September 2012)	–	–	–	–	–	–	–
Wang Kaitian	31	–	–	–	31	–	31
Li Chenghua	–	–	–	–	–	–	–
Independent non-executive directors							
Gao Hui	230	–	–	–	230	–	230
Qiao Jun	157	–	–	–	157	–	157
Chen Jianguo	157	–	–	–	157	–	157
Chief executive officer							
Li Shibao (appointed on 7 July 2012)	–	196	20	–	216	–	216
Total	575	5,747	165	–	6,487	–	6,487

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 33.

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11 Directors' and chief executive's remuneration (continued)

Li Chenghua has agreed to waive all of his director emoluments under the existing service agreement for the years ended 31 December 2013 and 2012. Feng Kuande has agreed to waive part of his director emoluments under the existing service agreement for the years ended 31 December 2013 and 2012. Wang Kaitian confirmed to waive all and part of his director emoluments under the existing service agreement for the year ended 31 December 2013 and 2012 respectively.

The remunerations of Li Shibao for the year ended 31 December 2013 includes his remuneration in the sole capacity of chief executive officer for the period from 1 January 2013 to 22 March 2013.

12 Individuals with highest emoluments

Of the five individuals with the highest emoluments including two (2012: one) existing directors whose emoluments are disclosed in note 11 for the year ended 31 December 2013, whereas one resigned director was included for the year ended 31 December 2013 and 2012 respectively whose emoluments are partly disclosed in note 11. The aggregate of the emoluments in respect of the remaining two individuals during the year ended 31 December 2013 and the emoluments of the resigned director for the period from 24 March 2013 to 31 December 2013, and the emoluments in respect of the remaining three individuals during the year ended 31 December 2012 and the emoluments of the resigned director for the period from 8 July 2012 to 31 December 2012 are as follows:

	2013 $'000	2012 $'000
Salaries and other emoluments	**9,853**	12,914
Contributions to retirement benefit schemes	**60**	60
	9,913	12,974

The emoluments fell within the following bands:

	2013 Number of individuals*	2012 Number of individuals*
$1,000,001 – $1,500,000	**–**	1
$1,500,001 – $2,000,000	**1**	–
$2,500,001 – $3,000,000	**–**	1
$3,000,001 – $3,500,000	**1**	1
$4,000,001 – $4,500,000	**1**	–
$7,000,001 – $7,500,000	**–**	1

* Including the resigned director during the year ended 31 December 2013 and 2012 respectively.

For the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group and no other amounts were paid by the Group to the directors, or the five highest paid individuals, as compensation for loss of office.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 (Loss)/profit attributable to equity holders of the Company

The loss attributable to equity holders of the Company includes a loss of $9,698,000 (2012: a profit of $36,668,000) 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 2013 and 2012.

15 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the year ended 31 December 2013 is based on the profit attributable to equity holders of the Company for the year of HK$43,592,000 (2012: a loss of HK$605,455,000) and the weighted average number of 1,822,756,000 (2012: 1,822,756,000) shares in issue during the year.

Weighted average number of ordinary shares

	2013	2012
	'000	'000
Issued ordinary shares at 1 January and weighted average number of ordinary shares at 31 December	**1,822,756**	1,822,756

(b) Diluted earnings/(loss) per share

Diluted earnings per share equals to basic earnings per share for the year ended 31 December 2013 because the potential ordinary shares outstanding were anti-dilutive.

Diluted loss per share equals to basic loss per share for the year ended 31 December 2012 because the exercise of share options would result in a decrease in loss per share.

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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 2012	6,458,587	2,813,727	240,983	164,031	4,239,465	13,916,793
Other additions	255,553	161,349	7,868	25,632	1,899,363	2,349,765
Transfers	1,311,826	443,636	–	22,586	(1,778,048)	–
Disposals	(2,755)	(10,581)	(1,812)	(632)	–	(15,780)
Effect of movements in exchange rates	2,077	613	(28)	84	(2,256)	490
At 31 December 2012	8,025,288	3,408,744	247,011	211,701	4,358,524	16,251,268
At 1 January 2013	**8,025,288**	**3,408,744**	**247,011**	**211,701**	**4,358,524**	**16,251,268**
Other additions	**246,194**	**129,922**	**5,252**	**14,428**	**1,237,115**	**1,632,911**
Transfers	**139,200**	**37,732**	**–**	**18,647**	**(195,579)**	**–**
Disposals	**(1,695)**	**(11,663)**	**(3,158)**	**(2,351)**	**–**	**(18,867)**
Disposed of through disposal of subsidiaries	**(171,649)**	**(30,174)**	**(4,898)**	**(1,059)**	**–**	**(207,780)**
Effect of movements in exchange rates	**253,638**	**107,998**	**3,295**	**7,029**	**143,253**	**515,213**
At 31 December 2013	**8,490,976**	**3,642,559**	**247,502**	**248,395**	**5,543,313**	**18,172,745**
Accumulated depreciation:						
At 1 January 2012	612,271	565,256	40,455	63,339	–	1,281,321
Depreciation for the year	218,321	193,448	18,589	25,315	–	455,673
Disposals	(220)	(3,083)	(1,176)	(437)	–	(4,916)
Effect of movements in exchange rates	446	376	4	53	–	879
At 31 December 2012	830,818	755,997	57,872	88,270	–	1,732,957
At 1 January 2013	**830,818**	**755,997**	**57,872**	**88,270**	**–**	**1,732,957**
Depreciation for the year	**260,109**	**218,085**	**19,801**	**27,748**	**–**	**525,743**
Disposals	**(634)**	**(4,771)**	**(1,247)**	**(1,058)**	**–**	**(7,710)**
Disposed of through disposal of subsidiaries	**(51,935)**	**(8,368)**	**(4,281)**	**(749)**	**–**	**(65,333)**
Effect of movements in exchange rates	**29,639**	**26,740**	**1,459**	**3,124**	**–**	**60,962**
At 31 December 2013	**1,067,997**	**987,683**	**73,604**	**117,335**	**–**	**2,246,619**
Carrying amounts:						
At 31 December 2013	**7,422,979**	**2,654,876**	**173,898**	**131,060**	**5,543,313**	**15,926,126**
At 31 December 2012	7,194,470	2,652,747	189,139	123,431	4,358,524	14,518,311

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Property, plant and equipment (continued)

All properties are located in the PRC under medium-term leases.

Ownership certificates of certain properties with an aggregate carrying value of $1,879,602,000 (2012: $2,230,783,000) at 31 December 2013 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 2013.

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 2013, the carrying amount of leased property, plant and equipment was $117,653,000 (2012: $121,413,000).

Security

At 31 December 2013, certain properties and construction in progress with carrying amounts of $874,206,000 (2012: $340,509,000) and $144,627,000 (2012: $77,216,000) respectively were pledged against bank loans (see note 29).

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(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment properties

The Group

	2013	2012
	$'000	$'000
Cost:		
At 1 January	**244,344**	244,465
Effect of movements in exchange rates	**7,645**	(121)
At 31 December	**251,989**	244,344
Accumulated depreciation:		
At 1 January	**37,318**	30,002
Charge for the year	**7,449**	7,305
Effect of movements in exchange rates	**1,278**	11
At 31 December	**46,045**	37,318
Carrying amounts:		
At 31 December	**205,944**	207,026

The investment properties of the Group mainly represent cold storage situated in the PRC under medium-term leases. The Group leases out investment properties under operating leases to third parties. 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.

During the year, $29,238,000 (2012: $26,664,000) 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 $16,867,000 (2012: $13,822,000).

The fair value of investment properties located in the PRC is estimated by the directors by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates.

The aggregate fair value of the investment properties at 31 December 2013 was approximately $312,794,000 (2012: $303,107,000).

The fair value measurement has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 39 to 50 years.

At 31 December 2013, land use rights with a carrying amount of $600,164,000 (2012: $489,662,000) were pledged against bank loans and unutilised bank loan facilities (see note 29).

19 Investments in subsidiaries

The Company

	2013 **$'000**	2012 $'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

	2013 **$'000**	2012 $'000
At 1 January	**93,801**	93,847
Effect of movements in exchange rates	**2,935**	(46)
At 31 December	**96,736**	93,801

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. The fair value measurement was categorised as a level 3 fair value as the inputs used in the calculation are not based on observable market data.

Notes to the Consolidated Financial Statements

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20 Goodwill (continued)

Key assumptions used for the value-in-use calculations

The Group

	2013	2012
	%	%
Gross margin	**8**	7
Growth rate	**21**	18
Discount rate	**16**	16

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. Cash flows beyond the five-year period are extrapolated using growth rate of 0%, which does not exceed the long-term average growth rate for the business in which the CGU operates.

21 Interest in an associate

The Group

	2013	2012
	$'000	$'000
Share of net assets	**–**	5,127

Details of the associate as at 3 September 2013 and 31 December 2012 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 Donghai Company Limited ("Runyang Biotech") * 潤揚生物科技東海有限公司	The PRC	RMB 10,000,000	45%	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.

The associate established in the PRC is a domestic limited liability company.

Pursuant to a capital injection of RMB6,502,000 into Runyang Biotech by a wholly-owned subsidiary of the Group on 3 September 2013, the attributable equity interest held by the Group has increased to 67% and the Group obtained control over Runyang Biotech. Runyang Biotech is accounted for as a subsidiary of the Group beginning on 3 September 2013.

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(Expressed in Hong Kong dollars unless otherwise indicated)

21 Interest in an associate (continued)

The fair value of the interest in associate was close to its carrying value on the acquisition date as Runyang Biotech is still at the start-up stage. The fair value of the identifiable assets and liabilities of Runyang Biotech approximates their carrying amounts.

For the period from 3 September 2013 to 31 December 2013, Runyang Biotech contributed nil revenue and a loss of $671,000 to the Group's result. If the acquisition had occurred on 1 January 2013, management estimates that the consolidated turnover and consolidated profit for the year would not vary materially.

Summary financial information on the associate:

	2012 $'000
Carrying amount of the associate in the consolidated financial statements	5,127

	2013 **$'000**	2012 $'000
The Group's share of the associate's results:		
Loss for the year	**(290)**	(250)
Other comprehensive income	**314**	(4)
Total comprehensive income	**24**	(254)

22 Interest in a joint venture

The Group

	2013 **$'000**	2012 $'000
Share of net assets	**18,268**	21,865

Details of the joint venture are as follows:

Name of joint venture	**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.

The joint venture established in the PRC is a domestic limited liability company.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Interest in a joint venture (continued)

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 joint venture:

	2013	2012
	$'000	$'000
Carrying amount of the joint venture in the consolidated financial statements	**18,268**	21,865
The Group's share of the joint venture's results:		
Loss for the year	**(4,218)**	(2,185)
Other comprehensive income	**621**	(19)
Total comprehensive income	**(3,597)**	(2,204)

23 Non-current prepayments

The Group

	2013	2012
	$'000	$'000
Prepayments for acquisitions of land use rights	**130,253**	156,014
Prepayments for acquisitions of property, plant and equipment	**294,398**	245,087
	424,651	401,101

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24 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2013 are attributable to the following:

The Group

	Assets		Liabilities		Net	
	2013 **$'000**	2012 $'000	**2013** **$'000**	2012 $'000	**2013** **$'000**	2012 $'000
Property, plant and equipment	**21,476**	24,238	**(18,157)**	(17,447)	**3,319**	6,791
Impairment losses on trade and other receivables	**6,588**	453	**–**	–	**6,588**	453
Withholding tax on profits from PRC subsidiaries	**–**	–	**(159,747)**	(155,234)	**(159,747)**	(155,234)
Total deferred tax (liabilities)/assets	**28,064**	24,691	**(177,904)**	(172,681)	**(149,840)**	(147,990)

(b) Movements in temporary differences

Movements in temporary differences during the year are as follows:

The Group

	At 1 January 2012 $'000	Recognised in profit or loss $'000	Exchange difference $'000	At 31 December 2012 $'000	**Recognised in profit or loss $'000**	**Exchange difference $'000**	**At 31 December 2013 $'000**
Property, plant and equipment	22,495	(15,700)	(4)	6,791	**(3,566)**	**94**	**3,319**
Impairment losses on trade and other receivables	159	295	(1)	453	**6,031**	**104**	**6,588**
Withholding tax for dividends from PRC subsidiaries	(155,311)	–	77	(155,234)	**–**	**(4,513)**	**(159,747)**
Total	(132,657)	(15,405)	72	(147,990)	**2,465**	**(4,315)**	**(149,840)**

Notes to the Consolidated Financial Statements

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25 Inventories

The Group

	2013	2012
	$'000	$'000
Raw materials	**313,476**	321,155
Work in progress	**176,460**	129,885
Finished goods	**680,426**	1,214,190
	1,170,362	1,665,230

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

	2013	2012
	$'000	$'000
Carrying amount of inventories sold	**20,594,576**	26,291,884
Write down of inventories	**79,808**	92,015
	20,674,384	26,383,899

Due to the unfavourable market condition, the Group wrote down the inventories to their net realisable values.

26 Trade and other receivables

	The Group		**The Company**	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Trade receivables (note (a))	**723,600**	442,992	**–**	–
Bills receivable	**26,904**	93,380	**–**	–
Value-added tax recoverable	**1,606,379**	1,309,869	**–**	–
Deposits and prepayments	**155,323**	105,186	**467**	1,201
Others	**96,096**	75,993	**–**	–
	2,608,302	2,027,420	**467**	1,201

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 37.

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26 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 based on invoice date is analysed as follows:

The Group	**2013**	2012
	$'000	$'000
Within 30 days	**433,858**	283,162
31 days to 90 days	**137,238**	133,442
91 days to 180 days	**146,152**	12,793
Over 180 days	**6,352**	13,595
	723,600	442,992

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

	2013	2012
	$'000	$'000
At 1 January	**10,354**	7,050
Impairment losses recognised	**28,111**	4,035
Reversal of impairment losses on trade debtors	**(467)**	(738)
Effect of movements in exchange rate	**735**	7
At 31 December	**38,733**	10,354

At 31 December 2013, the Group's trade debtors of $38,733,000 (2012: $10,354,000) 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 $38,733,000 (2012: $10,354,000) were recognised.

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26 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

	2013 $'000	2012 $'000
Neither past due nor impaired	**641,486**	375,724
Less than 1 month past due	**43,158**	41,532
1 to 3 months past due	**23,649**	8,529
Over 3 months past due	**15,307**	17,207
	82,114	67,268
	723,600	442,992

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.

27 Pledged deposits

The Group

	2013 $'000	2012 $'000
Guarantee deposits for issuance of letter of credits	**–**	15,550
Deposits as security for bank loans	**6,405**	6,043
Pledged deposit for utilities	**5,078**	–
	11,483	21,593

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28 Cash and cash equivalents

	The Group		The Company	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**2,444,694**	2,812,267	**97,156**	12,723
Cash and cash equivalents in the cash flow statement	**2,444,694**	2,812,267		

29 Bank loans

The bank loans are repayable as follows:

The Group

	2013	2012
	$'000	$'000
Bank loans		
– Within one year or on demand	**3,415,390**	3,617,538
– After one but within two years	**637,569**	421,805
– After two but within five years	**1,213,057**	1,099,088
– After five years	**127,194**	357,671
Total loans	**5,393,210**	5,496,102
Less: Loans due within one year classified as current liabilities	**(3,415,390)**	(3,617,538)
Non-current loans	**1,977,820**	1,878,564

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Bank loans (continued)

The Group

	2013 $'000	2012 $'000
Terms		
Unsecured bank loans denominated in RMB (note (i))		
– Variable interest rate at prevailing market rate	**1,090,054**	1,459,053
– Fixed interest rate at 5.50% to 6.30% (2012: 4.50% to 7.22%)	**2,187,738**	2,096,694
Secured bank loans denominated in RMB (note (i))		
– Variable interest rate at prevailing market rate (note (ii))	**2,055,510**	1,814,430
– Fixed interest rate at 5.60% to 6.00% (2012: 5.60% to 7.22%) (notes (ii) and (iii))	**59,908**	125,925
	5,393,210	5,496,102

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 2013, the Group could not fulfil covenants imposed by banks on certain loans of an aggregate amount of $127,194,000 which was fully repaid in January 2014 according to the scheduled repayment.

Further details of the Group's management of liquidity risk are set out in note 37(b).

(ii) At 31 December 2013, the bank loans were secured by certain properties, construction in progress and land use rights with carrying amount of $874,206,000 (2012: $340,509,000), $144,627,000 (2012: $77,216,000) and $539,235,000 (2012: $429,345,000) respectively.

(iii) At 31 December 2013, the bank loan was secured by pledged deposits denominated in RMB amounting to $6,405,000 (2012: $6,043,000).

(iv) At 31 December 2013, unutilised bank loan facilities $228,949,000 (2012: $222,003,000) were secured by land use rights with carrying amount of $60,929,000 (2012: $60,317,000).

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(Expressed in Hong Kong dollars unless otherwise indicated)

30 Medium term notes

The Group	**2013** **$'000**	2012 $'000
Medium term notes	**2,921,312**	1,603,355

On 10 May 2013, a subsidiary of the Group issued the second tranche of unsecured 3-year medium term notes of RMB1,000,000,000 in the PRC interbank debenture market with an interest rate of 5.27% per annum. The first tranche of unsecured 3-year medium term notes of RMB1,300,000,000 with an interest rate of 5.49% per annum was issued on 17 October 2012.

31 Finance lease liabilities

Finance lease liabilities are payable as follows:

The Group

		2013			2012	
	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	**7,325**	**6,691**	**634**	7,103	6,515	588
After one but within two years	**13,021**	**6,661**	**6,360**	7,103	6,488	615
After two but within five years	**20,125**	**18,250**	**1,875**	25,636	18,281	7,355
More than five years	**246,253**	**72,725**	**173,528**	245,286	76,393	168,893
	279,399	**97,636**	**181,763**	278,025	101,162	176,863
Total finance lease obligations	**286,724**	**104,327**	**182,397**	285,128	107,677	177,451

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(Expressed in Hong Kong dollars unless otherwise indicated)

32 Trade and other payables

	The Group		The Company	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Trade payables	**931,193**	840,863	**–**	–
Receipts in advance	**249,161**	253,326	**–**	–
Deposits from customers	**107,432**	116,429	**–**	–
Salary and welfare payables	**109,221**	158,774	**509**	420
Value-added tax payable	**4,145**	2,253	**–**	–
Payables for acquisitions of property, plant and equipment	**412,118**	549,118	**–**	–
Other payables and accruals	**431,471**	711,555	**5,554**	7,811
	2,244,741	2,632,318	**6,063**	8,231

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.

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

The Group

	2013	2012
	$'000	$'000
Within 30 days	**707,780**	651,909
31 days to 90 days	**129,745**	91,053
91 days to 180 days	**30,593**	36,466
Over 180 days	**63,075**	61,435
	931,193	840,863

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(Expressed in Hong Kong dollars unless otherwise indicated)

33 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, 3 September 2011, 25 March 2013 and 14 June 2013, the Group granted 40,250,000 options ("2006 Options"), 83,400,000 options ("2011 Options"), 59,600,000 options ("2013 March Options") and 105,500,000 options ("2013 June Options") to qualified employees respectively. Each option gives the holders the right to subscribe for one ordinary share in the Company.

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

All the options have a contractual life of ten years. All the options granted are subject to a vesting scale in tranches of 25% each per annum starting from 2008, 2012, 2014 and 2014 after announcement of results for the previous year for 2006 Options, 2011 Options, 2013 March Options and 2013 June Options respectively, and achievement of performance-based vesting condition. The option shall lapse when the performance-based condition is not satisfied.

The Company estimated that the performance-based condition of the 2011 Options, 2013 March Options and 2013 June Options would not be achieved and hence no amount is recognised as cost of services received from the grantees.

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

	2013		2012	
	Weighted average exercise price	**Number of options ’000**	Weighted average exercise price	Number of options ’000
Outstanding at 1 January	**$16.89**	**70,184**	$17.15	91,034
Exercised during the year	**–**	**–**	–	–
Granted during the year	**$5.05**	**165,100**	–	–
Lapsed during the year	**$18.04**	**(20,850)**	$18.04	(20,850)
Outstanding at 31 December	**$7.66**	**214,434**	$16.89	70,184
Exercisable at 31 December	**$7.46**	**7,634**	$7.46	7,634

No share options were exercised during the years ended 31 December 2013 and 2012.

2006 Options, 2011 Options, 2013 March Options and 2013 June Options outstanding at 31 December 2013 had exercise price of $7.46, $18.04, $5.142 and $5.002 and the weighted average contractual lives of 2.86 (2012: 3.86), 7.74 (2012: 8.74), 9.23 (2012: Nil) and 9.45 (2012: Nil) years respectively.

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(Expressed in Hong Kong dollars unless otherwise indicated)

33 Equity-settled share-based payments (continued)

(c) Fair value of share options and assumptions

The fair values of services received in return for 2013 March Options and 2013 June Options granted are measured by reference to the fair values of share options granted. The estimate of the fair values of the 2013 March Options and 2013 June Options granted were measured based on a binomial model. Expectations of early exercise (based on historical experience and general option holder behaviour) were incorporated into the binomial model.

Fair values of 2013 March Options and 2013 June Options and assumptions

	2013 March Options	**2013 June Options**
Fair value at measurement date	$142,708,000	$248,106,000
Share price at grant date	$5.03	$4.86
Exercise price	$5.142	$5.002
Expected volatility (expressed as weighted average volatility used in the modelling under binomial model)	55.3%	55.4%
Option life (expressed as weighted average life used in the modelling under binomial model)	10 years	10 years
Expected dividends	1.0%	1.0%
Risk-free interest rate (based on Exchange Fund Notes)	1.212%	1.605%

The expected volatilities are based on the historic volatility (calculated based on the weighted average remaining life of the 2013 March Options and 2013 June Options respectively), adjusted for any expected changes to future volatilities 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.

34 Share capital

(a) Authorised and issued share capital

	2013		2012	
	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 and 31 December	**1,822,756**	**182,276**	1,822,756	182,276

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34 Share capital (continued)

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

Exercise period	Exercise price	2013 Number '000	2012 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**	1,850
After the result announcement for the year ended 31 December 2009 to 9 November 2016	$7.46	**9**	9
From 1 July 2010 to 9 November 2016	$7.46	**2,634**	2,634
After the result announcement for the year ended 31 December 2010 to 9 November 2016	$7.46	**2,291**	2,291
After the result announcement for the year ended 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**	20,850
After the result announcement for the year ending 31 December 2014 to 2 September 2021	$18.04	**20,850**	20,850
After the result announcement for the year ended 31 December 2013 to 24 March 2023	$5.142	**14,900**	–
After the result announcement for the year ended 31 December 2014 to 24 March 2023	$5.142	**14,900**	–
After the result announcement for the year ended 31 December 2015 to 24 March 2023	$5.142	**14,900**	–
After the result announcement for the year ended 31 December 2016 to 24 March 2023	$5.142	**14,900**	–
After the result announcement for the year ended 31 December 2013 to 13 June 2023	$5.002	**26,375**	–
After the result announcement for the year ended 31 December 2014 to 13 June 2023	$5.002	**26,375**	–
After the result announcement for the year ended 31 December 2015 to 13 June 2023	$5.002	**26,375**	–
After the result announcement for the year ended 31 December 2016 to 13 June 2023	$5.002	**26,375**	–
		214,434	70,184

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

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35 Reserves and dividends

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

(a) The Company

	Note	Share premium (Note 35(b))	Contributed surplus (Note 35(g))	(Accumulated losses)/ retained earnings	Total
		$'000	$'000	$'000	$'000
At 1 January 2012		7,400,418	297,480	(15,588)	7,682,310
Profit for the year		–	–	36,668	36,668
At 31 December 2012		7,400,418	297,480	21,080	7,718,978
At 1 January 2013		**7,400,418**	**297,480**	**21,080**	**7,718,978**
Loss for the year		**–**	**–**	**(9,698)**	**(9,698)**
At 31 December 2013		**7,400,418**	**297,480**	**11,382**	**7,709,280**

(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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 Reserves and dividends (continued)

(e) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(i) Statutory surplus reserve

The domestic companies in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

(ii) Statutory general reserve

Under the PRC Company Law and the subsidiaries' articles of association, each of the subsidiaries of the Group which is a foreign investment enterprise in the PRC is required to transfer at least 10% of its net profit, as determined under the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50% of the capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

Statutory surplus reserve and statutory general reserve can be used to make good previous years' losses, if any, and may be converted into share capital by issuing new shares to equity owners proportionate to their existing percentage of equity interests provided that the balance after such issue is not less than 25% of the registered capital.

(f) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(g) 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.

(h) 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 2013, the aggregate amount of reserves available for distribution to equity holders of the Company was $7,709,280,000 (2012: $7,718,978,000).

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35 Reserves and dividends (continued)

(i) Dividend

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2013 (2012: $Nil).

(j) 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 (defined by the Group as profit/(loss) attributable to equity holders of the Company divided by total equity attributable to equity holders of the Company, excluding non-controlling interests) and the level of dividends to ordinary shareholders. In order to maintain the capital structure, the Company may also repurchase existing shares.

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 2013 was 0.3% (2012: -3.9%).

The Group is subject to externally imposed capital requirement.

36 Disposal of subsidiaries

In 2013, the Group disposed of in its entire equity interest in its two wholly owned subsidiaries in chilled and frozen meat segment (see note 7). The disposal had the following effect on the Group's assets and liabilities.

	$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	142,447
Lease prepayments	93,906
Inventories	851
Trade and other receivables	22,219
Cash and cash equivalents	1,654
Trade and other payables	(84,216)
Net identifiable assets	176,861
Exchange reserve realised on disposal	(14,299)
Gain on disposal of subsidiaries (note 7)	444,225
	606,787
Satisfied by:	
Cash consideration	606,787

Analysis of the net cash inflow in respect of the disposal of subsidiaries

	$'000
Cash consideration	606,787
Cash of subsidiaries disposed	(1,654)
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	605,133

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37 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 Company's 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 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 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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 Financial risk management and fair values (continued)

(a) Credit risk (continued)

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 balance sheet date, 34% (2012: 48%) 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. 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 26.

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.

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The contractual maturities and cash outflow of the finance lease liabilities are disclosed in note 31. The following are the contractual maturities at the balance sheet date of bank loans and medium term notes of the Group and the Company based on lender's ability to demand earliest repayment, including estimated interest payments and excluding the impact of netting agreements:

The Group

31 December 2013

	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	**5,393,210**	**5,925,182**	**1,116,027**	**2,558,407**	**752,764**	**1,365,015**	**132,969**
Medium term notes	**2,921,312**	**3,246,671**	**23,957**	**72,409**	**1,811,333**	**1,338,972**	**–**
	8,314,522	**9,171,853**	**1,139,984**	**2,630,816**	**2,564,097**	**2,703,987**	**132,969**

31 December 2012

	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	5,496,102	6,087,017	1,877,194	1,939,228	505,848	1,382,402	382,345
Medium term notes	1,603,355	1,849,333	–	69,930	88,024	1,691,379	–
	7,099,457	7,936,350	1,877,194	2,009,158	593,872	3,073,781	382,345

Save as the above, the Group's and the Company's other financial liabilities are required to be settled within one year or on demand and the total contractual undiscounted cash outflows of these financial liabilities approximate to their carrying amounts on the balance sheets.

(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 loans and other outstanding borrowings are disclosed in notes 29 and 30.

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 balance sheet date would not affect profit or loss.

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(Expressed in Hong Kong dollars unless otherwise indicated)

37 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 balance sheet date would have decreased the Group's retained earnings and profit after tax by approximately $7,322,000 (2012: decreased the Group's retained earnings and increased loss after tax by $7,213,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The impact on the group's profit after tax and retained earnings is estimated as impact on interest expense in respect of the loan remained outstanding as at the balance sheet date of such a change in interest rate. The analysis is performed on the same basis for 2012.

A decrease of 100 basis points in interest rates at the balance sheet 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**			
	2013		2012		**2013**		2012	
	Euro	**USD**	Euro	USD	**Euro**	**USD**	Euro	USD
	$'000	**$'000**	$'000	$'000	**$'000**	**$'000**	$'000	$'000
Other current assets	**9,025**	**131,311**	2,352	116,200	**–**	**91,946**	–	11,303
Other current liabilities	**(492)**	**(1,712)**	(3,342)	(3,392)	**–**	**–**	–	–
	8,533	**129,599**	(990)	112,808	**–**	**91,946**	–	11,303

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

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37 Financial risk management and fair values (continued)

(e) Fair value

Fair values versus carrying amounts

The fair values of cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amounts due from/to related parties 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 and medium term notes approximate their fair values because the borrowing rates were similar to rates currently available for bank loans and medium term notes with similar terms and maturity.

The fair value and the level of fair value hierarchy of the Group's other financial liabilities estimated by discounting estimated future cash flows using the Group's financing interest rate is as follows:

	2013			2012		
	Carrying amount $'000	**Fair value $'000**	**Fair value measurements categorised into Level 2 $'000**	Carrying amount $'000	Fair value $'000	Fair value measurements categorised into Level 2 $'000
Finance lease liabilities	**182,397**	**127,737**	**127,737**	177,451	114,366	114,366

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:

	2013	2012
Finance lease liabilities	**5.92%**	6.64%

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.

(f) Natural risk

The Group is engaged in slaughtering, production and sale of chilled and frozen meat and processed meat products. 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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

38 Commitments

(a) Operating leases

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

	2013	2012
	$'000	$'000
Within 1 year	**1,348**	4,298
After 1 year but within 5 years	**3,018**	1,584
Over 5 years	**2,414**	2,771
	6,780	8,653

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

(b) Capital commitments

Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013	2012
	$'000	$'000
Contracted for	**5,925,879**	5,114,403
Authorised but not contracted for	**–**	–
	5,925,879	5,114,403

39 Related party transactions

During the years ended 31 December 2013 and 2012, the Group had the following material related party transactions:

(a) Significant related party transactions

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

	2013	2012
	$'000	$'000
Sales of raw materials to related companies (note)	**5,037**	2,171
Sales of raw materials to a joint venture	**12,653**	12,492
Sales of finished goods to related companies (note)	**2,039**	831
Purchases of raw materials from related companies (note)	**296,242**	144,119

Note: Zhu Yicai ("Mr. Zhu") is the beneficial shareholder of the Company and also has beneficial interest in the related companies. Mr. Zhu was a director of the Company and resigned in July 2012.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

39 Related party transactions (continued)

(a) Significant related party transactions (continued)

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

Certain property, plant and equipment and land use rights owned by the Predecessor Entities were leased to the Group under finance leases (notes 16 and 31) and operating leases respectively. The rental for the year ended 31 December 2013 amounted to $7,012,000 (2012: $6,877,000).

(iii) 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 $147,294,000 (2012: $148,530,000) as at 31 December 2013 to the Group. No rental is paid or payable by any of the group companies.

(b) Amounts due from related parties

	2013	2012
	$'000	$'000
Other receivables due from related companies (note 39(a)(i))	**3,346**	1,268

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 2013 and 2012.

(c) Amounts due to related parties

	2013	2012
	$'000	$'000
Receipts in advance from a joint venture	**22**	463
Trade payables due to related companies (note 39(a)(i))	**28,589**	8,672

Amounts due to a joint venture and related companies 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 and a chief executive of the Company, was disclosed in note 11 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

40 Subsequent event

On 21 March 2014, the Board of Directors of the company approved a capital expenditure plan for 2014 amounting to RMB800,000,000 which is equivalent to approximately $1,017,533,000.

41 Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 17, 33 and 37 contain information about the assumptions relating to the determination of fair value of 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. If the estimation of recoverable amount is different, any impairment will impact the profit or loss of the Group.

(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 may be impacted 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 reassesses the impairment of trade receivables at the balance sheet date.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

41 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

42 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 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
Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to IAS 36, *Impairment of assets "Recoverable amount disclosures for non-financial assets"*	1 January 2014
IFRS 9, *Financial instruments*	Not yet established by IASB
IFRIC 21, *Levies*	1 January 2014

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far, it has concluded that the adoption of them, with the exception of IFRS 9, is unlikely to have a significant impact on the Group's results of operations and financial position.

The mandatory effective date of IFRS 9 has not yet been established and IASB is working to expand IFRS 9 to add new requirements in respect of macro hedging. Accordingly, the impact of IFRS 9 may change as a consequence of further development, resulting from the IASB's project of IAS 39. As a result, it is impractical to quantify the impact of IFRS 9 as at the date of this report.

List of Principal Subsidiaries

Appendix 1

The following list contains only the particulars of subsidiaries as at 31 December 2013 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 %	Attributable equity interest held by the Company Indirect %	Principal activity
Anhui Furun Meat Processing Co., Ltd (note (iii)) 安徽省福潤肉類加工有限公司	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
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 %	Attributable equity interest held by the Company 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
Zhongxiang Panlong (note (iii)) 鍾祥市盤龍肉類加工有限公司	The PRC	RMB20,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
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)

	2009 $'000	2010 $'000	2011 $'000	2012 $'000	**2013** **$'000**
Assets and liabilities					
Non-current assets	7,733,573	11,501,663	17,129,226	19,030,685	**20,581,555**
Net current assets	988,738	3,860,329	160,169	347,225	**688,558**
Total assets less current liabilities	8,722,311	15,361,992	17,289,395	19,377,910	**21,270,113**
Non-current liabilities	(322,132)	(879,494)	(1,117,648)	(3,831,463)	**(5,258,799)**
Net assets	8,400,179	14,482,498	16,171,747	15,546,447	**16,011,314**
Share capital	167,322	181,116	182,276	182,276	**182,276**
Reserves	8,202,380	14,255,593	15,926,506	15,306,908	**15,767,735**
Total equity attributable to equity holders of the Company	8,369,702	14,436,709	16,108,782	15,489,184	**15,950,011**
Non-controlling interests	30,477	45,789	62,965	57,263	**61,303**
Total equity	8,400,179	14,482,498	16,171,747	15,546,447	**16,011,314**
Operating results					
Turnover	13,870,428	21,472,747	32,315,193	26,781,632	**21,440,039**
Results from operating activities	1,955,734	2,973,924	1,942,117	(422,223)	**262,268**
Net finance costs	(64,404)	(47,635)	(36,231)	(144,912)	**(154,267)**
Share of losses of associates	(113)	(447)	(299)	(250)	**(290)**
Share of loss of a joint venture	-	-	(114)	(2,185)	**(4,218)**
Profit/(loss) before income tax	1,891,217	2,925,842	1,905,473	(569,570)	**103,493**
Income tax expense	(142,573)	(189,113)	(99,532)	(41,537)	**(64,059)**
Profit/(loss) for the year	1,748,644	2,736,729	1,805,941	(611,107)	**39,434**
Attributable to:					
Equity holders of the Company	1,745,288	2,728,176	1,799,088	(605,455)	**43,592**
Non-controlling interests	3,356	8,553	6,853	(5,652)	**(4,158)**
Profit/(loss) for the year	1,748,644	2,736,729	1,805,941	(611,107)	**39,434**
Earnings/(loss) per share					
Basic ($)	1.089	1.565	0.989	(0.332)	**0.024**
Diluted ($)	1.074	1.551	0.985	(0.332)	**0.024**