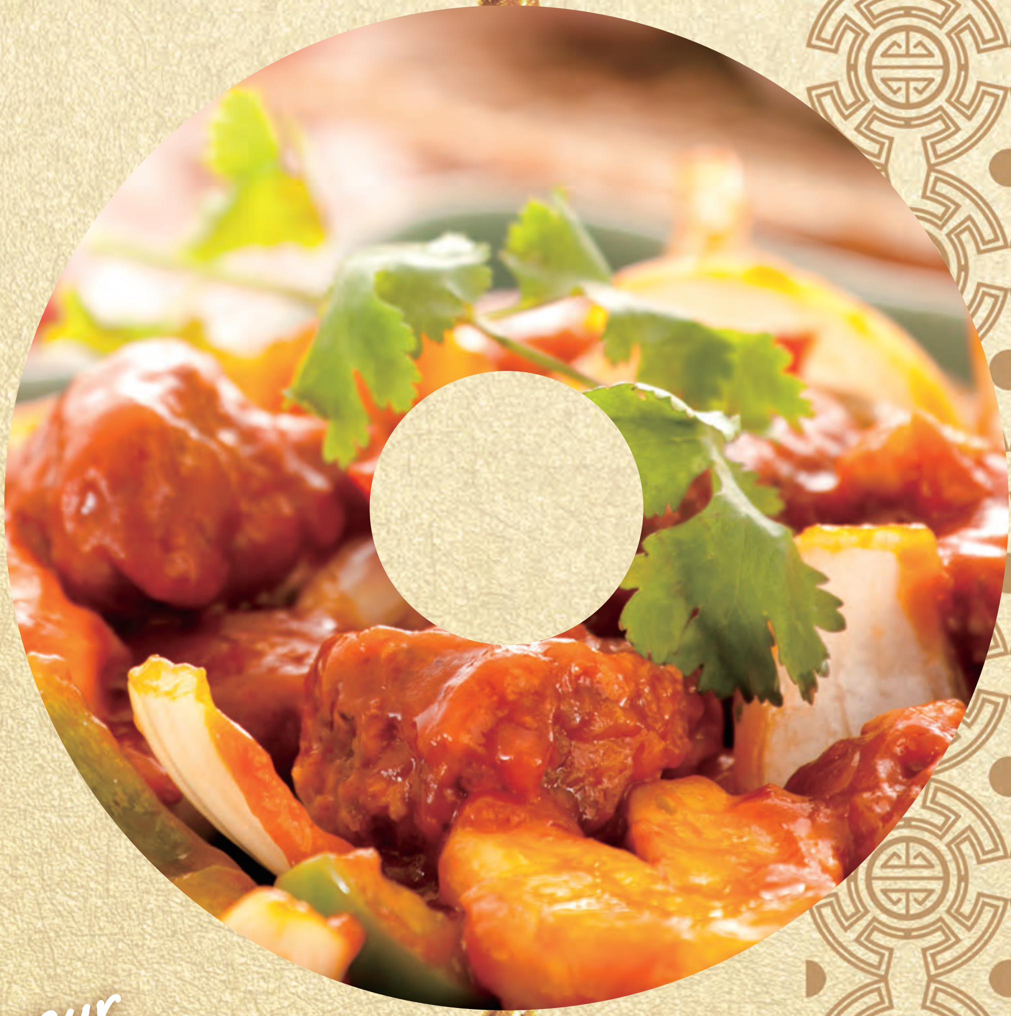
China Yurun Food Group Limited

中國雨潤食品集團有限公司

(Incorporated in Bermuda with limited liability)

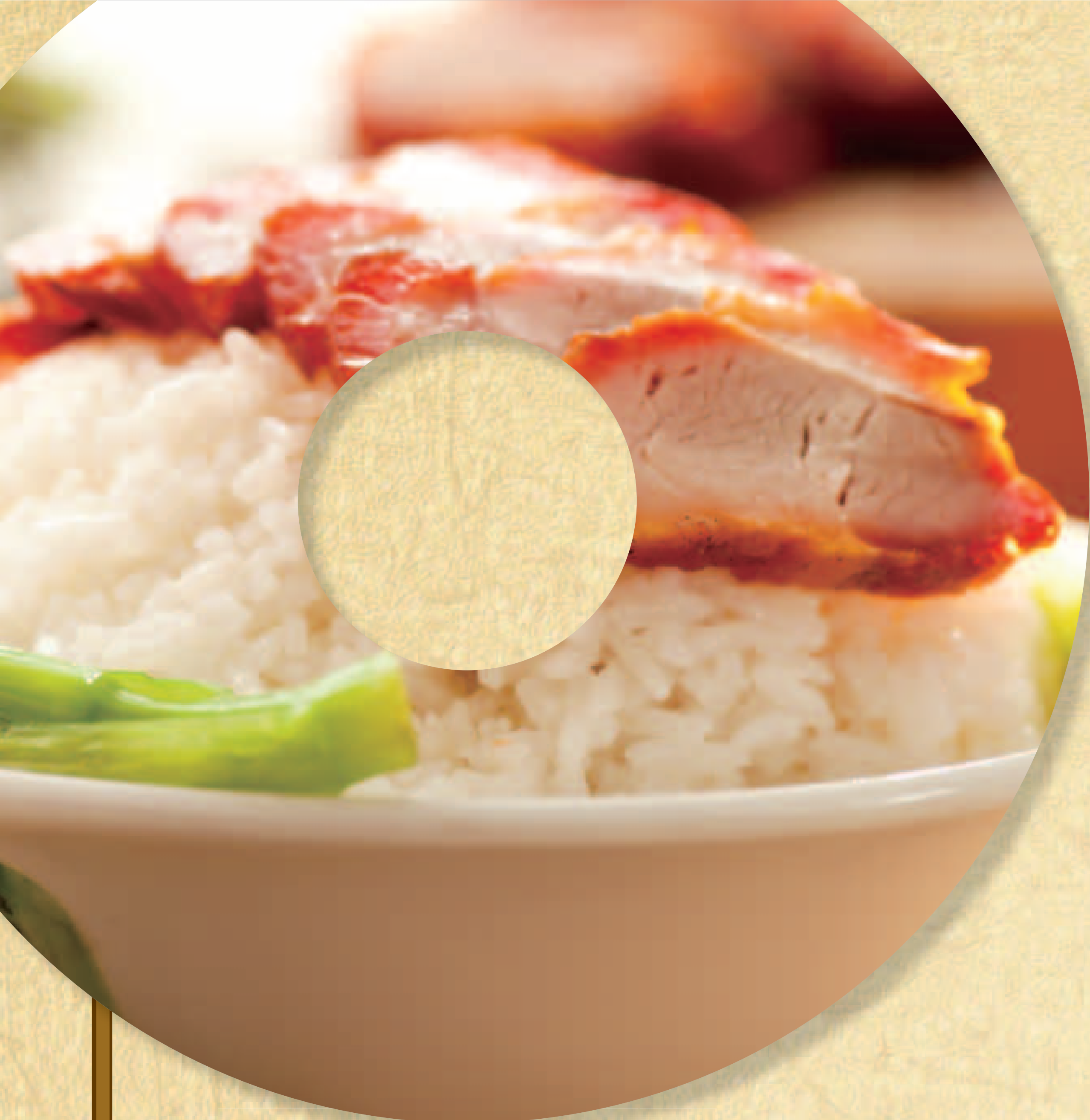
Stock Code: 1068

ANNUAL REPORT 2014



Endeavour

- our key to brighter future



Endeavour
- our key to brighter future

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Corporate Information

Board of Directors

Executive Directors

Yu Zhangli *(Chairman)*
Li Shibao *(Chief Executive Officer)*
Ge Yuqi
Sun Tiexin

Independent Non-executive Directors

Gao Hui
Chen Jianguo
Li Qing

Audit Committee

Gao Hui *(Chairman)*
Chen Jianguo
Li Qing

Remuneration Committee

Gao Hui *(Chairman)*
Yu Zhangli
Chen Jianguo

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
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
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
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 2014 (the "Review Year").

Business Review

During the Review Year, the national economy slowed down and the market competition became increasingly severe. Due to the decline in domestic catering consumption, the overall consumption was lower than expected. Meanwhile, in light of the slightly over-supply of hog, hog price decreased significantly as compared to same period last year. The hog slaughtering and meat product processing industries underwent a tough and challenging year.

In 2014, the Chinese Government launched a series of policies with an aim to achieving economies of scale, standardisation and sustainable development of the meat processing industry. During the Review Year, the Chinese Government proposed a bill for amendment to the Food Safety Law to the Standing Committee of the National People's Congress for consideration, which specifies the duties of each authority, imposes severe punishment on delinquent officers, and standardises the publication of information on food safety. The improving macro environment created favourable conditions for the development of the leading enterprises in the industry, including Yurun Food, enabling the Company to leverage its strengths in branding, capacity and national network to establish a solid foundation for stable and sustainable business development.

Against the ever-changing and complicated macro economy, the revenue of the Group amounted to HK$19.158 billion and the profit attributable to the equity holders of the Company was approximately HK$57 million, representing a significant increase of 30.2% as compared with that of 2013.

The Group is one of the leading meat product suppliers in the People's Republic of China (the "PRC" or "China"). During the Review Year, the Group continued to implement a stringent procedure to monitor its products, a stringent hygiene inspection system for raw and other materials, a product quality management system, a pre-delivery quality control system, a cold-chain logistics system and a product recall system as a one-stop product safety solution to ensure our product quality.

During the Review Year, the Group pro-actively adopted various prudent measures to adjust its expansion pace and scale and prevent food safety risks in accordance with the relevant government policies. In the meantime, the Group also pro-actively expanded its restaurant chains and distribution channels, carried out product innovation, technology research and products diversification, and upgraded the product mix, so as to improve capacity utilisation rate as well as to enhance its profit.

The Board believes that, under the favourable environment created by the government's increasing efforts to promote food safety, the Group will continue to capitalise its core strengths in resources, strategy and branding to further promote its businesses.

Prospect

In 2014, with the central government's increasing attention to food safety, various macro policies were launched under which the market environment continuously improved and transactions were regulated. In the meantime, despite the slower growth rate, the national economy remained basically stable and people's living standard improved. In February 2015, the Ministry of Agriculture issued the Notice on Regulating the Livestock and Poultry Slaughtering Industry in 2015 (《關於做好2015年畜禽屠宰行業管理工作的通知》) with six focal areas including adjusting the supervision function of the government, accelerating construction of facilities which are legally compliant, improving the management ability of the slaughtering industry, etc in order to strengthen the management of the livestock and poultry slaughtering industry and increase the management of food safety. At the same time, Premier Li Keqiang addressed the increasing efforts in food safety management, and implementation of anti-water pollution plan etc in the government report, which is favourable to the healthy development of the industry and good news to the branded corporations. Under the current macro policies, economic conditions and the government plans and measures the overall meat product market is expected to grow moderately in the coming year, creating both opportunities and challenges to the Group.

Against the backdrop of the industry integration, the Board and the management will continue to work as one team and to make our endeavor to achieve further solid results for the Company and all our shareholders.

Acknowledgement

Yurun Food will continue to maintain its leading position among meat product enterprises in China and adhere to its undertaking on quality, safety and hygiene of food. We will strictly observe the motto of "you trust because we care" and aim at providing quality meat products of international standards to consumers. 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 unfailing efforts, have contributed to the Group's success against a challenging market environment over the past years.

Yu Zhangli
Chairman
Hong Kong, 31 March 2015

食品之业是道德工业

You Trust Because We Care

Management Discussion and Analysis

Industry Overview

During the Review Year, due to the slower economic growth of the PRC, combined with the economic structural change and strict implementation by the local governments of the requirements on anti-wastage in recent years, both the high-end catering industry and consumption of meat had been affected and suppressed. Given the over-supply of hog in general, pork consumption was weak during the Review Year. Under the unfavourable economic and pork market conditions, operation of the industry players was under pressure to certain extent.

However, during the Review Year, the Chinese Government speeded up its effort to promote food safety and to strengthen industry supervision related policies. In June 2014, the Ministry of Agriculture promulgated a notice on reinforcing supervision on hog slaughtering products' quality and safety to establish a long term system to supervise the quality and safety of hog slaughtering products. In July 2014, the bill for amendments to the Food Safety Law was proposed to the Standing Committee of the National People's Congress for consideration, under which, it is proposed to impose severe punishment on delinquent officers and illegal producers, impose supervision on foods purchased through online shopping and standardise the publication of food safety related information, with an aim to establish a stringent food safety supervision system. These measures are favourable to the development of the industry.

The Board believes that, under the favourable environment created by the government's increasing efforts to promote food safety which partially offset the impact of the difficult macro economic environment, the Group will continue to exert its endeavour to further promote its business and achieve stable development.

Business Review

During the Review Year, the domestic economic growth slowed down, operating cost of enterprise continued to rise and the market became more competitive. The pro-active expansion in production capacity of the Group over past few years resulted in low utilisation rate and pressure on amortisation of fixed costs, which affected the business operation. During the Review Year, the Group actively adopted various prudent measures to reduce its capital expenditure and further expand its network channels. Leveraged on its strengths in distribution network, and by active exploration of new business operation model, product innovation and technology development and product diversification, the Group adjusted its expansion pace and scale. These measures mainly aimed at increasing profits and gradually improving utilisation rate. The management will continue to adopt corresponding measures to strike the balance between overall profitability and utilisation rate in order to procure long term and stable development of the Group.

Product Quality and R&D

During the Review Year, Yurun Food adhered to the philosophy of "you trust because we care" and led the industry development by technical research and development. With the unfailing efforts to pursue stringent product quality, Yurun Food ranked top in terms of market shares of low temperature meat products ("LTMP") and chilled pork in China, and successively topped the market shares of LTMP in the Chinese market for the past consecutive sixteen years in the 22nd Press Conference releasing the Product Sales Statistics of the PRC Market (第二十二屆中國市場商品銷售統計結果新聞發佈會) held in April 2014. The Group will continue to emphasise high product quality and focus on research and development of products which are well received by the market, so as to further sharpen its competitiveness and maintain the leading industry position.

Sales and Distribution

Chilled pork and LTMP, which are the Group's products with higher added value, remained the key drivers to the overall business development of the Group during the Review Year. In 2014, due to the drop in hog price, sales of chilled pork of the Group was HK$15.165 billion (2013: HK$16.528 billion), representing a decrease of 8.3% over last year, accounting for approximately 76% (2013: 75%) of the total turnover of the Group prior to inter-segment eliminations and approximately 88% (2013:

Management Discussion and Analysis

86%) of the total turnover of the upstream slaughtering segment. Sales of LTMP was HK$2.500 billion (2013: HK$2.633 billion), representing a decrease of 5.1% over last year, accounting for approximately 13% (2013: 12%) of the total turnover of the Group prior to inter-segment eliminations and approximately 91% (2013: 89%) of the total turnover of the downstream processed meat segment.

Production Facilities and Production Capacity

Adhering to stringent investment costs control, the Group adjusted its expansion pace according to market change and the business conditions of the Group.

In respect to its upstream slaughtering segment, with the efforts of our management to adjust the expansion pace, only three new plants of the Group commenced production during the Review Year. As of 31 December 2014, the upstream slaughtering capacity, after deducting the capacity of a subsidiary already disposed, was 56.35 million heads per year, representing an increase of only 0.9 million heads as compared with 55.45 million heads at the end of 2013.

During the second half of 2014, the meat processing factory located in Nanjing was started to move to the new factory in Pukou area of Nanjing in stages. As at 31 December 2014, the Group's production capacity of downstream processed meat segment remained unchanged at approximately 312,000 tons per year as compared with that as at 31 December 2013.

Financial Review

The Group recorded a turnover of HK$19.158 billion in 2014, representing a decrease of 10.6% as compared with HK$21.440 billion of last year due to consistent drop in hog price. The profit attributable to equity holders was HK$57 million in 2014 (2013: HK$44 million), representing an increase of 30.2% from last year. Core results, being profit attributable to equity holders excluding government subsidies, gain on disposal of a subsidiary and net foreign exchange gain/loss of the Group, recorded a loss of HK$709 million (2013: HK$1.142 billion), representing a significant reduction of loss by approximately 37.9% over last year. Diluted earnings per share was HK$0.031, representing an increase of 29.2% from HK$0.024 of last year.

Turnover

Chilled and Frozen Pork

During the Review Year, the slaughtering volume of the Group increased by approximately 3.8% over that of last year. This was mainly because the Group appropriately made compromise to the growth of the slaughtering volume under its objective to improve profitability.

In 2014, total sales from upstream business (before inter-segment eliminations) decreased by 10.4% to HK$17.163 billion (2013: HK$19.164 billion) as compared with that of last year, of which, sales of chilled pork decreased by 8.3% to HK$15.165 billion (2013: HK$16.528 billion), accounting for approximately 76% (2013: 75%) and approximately 88% (2013: 86%) of the total turnover (before inter-segment eliminations) of the Group and the total turnover of the upstream business of the Group respectively. Sales of frozen pork decreased by 24.2% to HK$1.998 billion (2013: HK$2.636 billion), accounting for approximately 12% (2013: 14%) of the total turnover of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products (before inter-segment eliminations) of the Group was HK$2.759 billion (2013: HK$2.949 billion), representing a decrease of 6.4% over last year.

Specifically, turnover of LTMP was HK$2.500 billion, representing a decrease of 5.1% as compared with HK$2.633 billion of last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 91% (2013: 89%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$259 million (2013: HK$316 million), accounting for approximately 9% (2013: 11%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 28.9% from HK$766 million in 2013 to HK$987 million during the Review Year. Overall gross profit margin increased by 1.5 percentage points to 5.1% from 3.6% of last year. During the Review Year, the steady increase in gross profit margin was due to the gradual recovery of business and positive effects of the new measures of the Group, such as optimisation of sales channels.

With respect to the upstream business, gross profit margin of chilled pork and frozen pork were 4.2% and -6.3% respectively (2013: 2.9% and -9.9% respectively). The overall gross profit margin of the upstream segment was 3.0%, representing an increase of 1.9 percentage points from 1.1% of last year.

With respect to downstream processed meat products, gross profit margin of LTMP was 17.2%, representing a decrease of 1.8 percentage points from 19.0% of last year. Gross profit margin of HTMP was 17.6%, representing an increase of 2.2 percentage points over last year. Overall gross profit margin of the downstream segment was 17.2%, representing a decrease of 1.5 percentage points from 18.7% of last year.

Other Net Income

Other net income mainly included government subsidies, gains from disposal of subsidiaries and cold storage rental income. During the Review Year, other net income of the Group was HK$882 million, representing a decrease of HK$322 million as compared with HK$1.204 billion of last year. The decrease in other net income was mainly because government subsidies income decreased by HK$294 million as compared with last year.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.703 billion (2013: HK$1.707 billion), which was similar to that of last year. Operating expenses represented 8.9% of the Group's turnover, an increase of 0.9 percentage point as compared with 8.0% of last year.

Operating Profit

Operating profit of the Group during the Review Year was HK$166 million, representing a decrease of 36.9% from HK$262 million of last year.

Finance Costs

During the Review Year, net finance costs of the Group were HK$233 million as compared with HK$154 million of last year. Net finance costs increased mainly because of the increase in interest expense on borrowing due to increased average bank and other borrowings during the Review Year. In addition, depreciation of Renminbi ("RMB") against Hong Kong dollars compared to 2013 resulted in foreign exchange loss of approximately HK$5 million during the Review Year, contrary to the foreign exchange gain of approximately HK$31 million from appreciation of RMB against Hong Kong dollars in same period last year.

Income Tax

Income tax for the Review Year with a credit of HK$127 million as compared with an expense of HK$64 million of last year. The tax credit for the Review Year was mainly due to the reversal of deferred tax liabilities in respect of the withholding tax on profits from the PRC subsidiaries.

Profit Attributable to the Equity Holders of the Company

Taking into account all of the above factors, profit attributable to the equity holders of the Company significantly increased by 30.2% to HK$57 million in 2014 from HK$44 million in 2013. Net profit margin for the Review Year was 0.3%, similar to that of last year.

Financial Resources

As at 31 December 2014, the Group's cash balance together with time deposits and pledged deposits were HK$1.124 billion, approximately 98% (31 December 2013: 95%) of which was denominated in RMB and Hong Kong dollars, representing a decrease of HK$1.366 billion as compared with HK$2.490 billion as at 31 December 2013. They were mainly used in operating activities and payment for construction in progress, repayment of bank loans and interest payment.

As at 31 December 2014, the Group had outstanding bank loans of HK$8.110 billion (including medium term notes, "MTN"), representing a decrease of HK$205 million from HK$8.315 billion as at 31 December 2013, of which, HK$3.819 billion and HK$1.645 billion (31 December 2013: HK$3.415 billion and HK$Nil) were bank loans and MTN respectively which are repayable within one year, bank loans which are due within one year are expected to be renewed upon maturity. All of our borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2013. The fixed rate debt ratio of the Group increased to 65.9% as at 31 December 2014 (31 December 2013: 62.2%). Taking into account the funds used for 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 by 60.0% to HK$700 million during the Review Year as compared with HK$1.752 billion of last year.

Assets and Liabilities

As at 31 December 2014, the total assets and total liabilities of the Group were HK$26.947 billion (31 December 2013: HK$26.942 billion) and HK$11.000 billion (31 December 2013: HK$10.931 billion) respectively, representing an increase of HK$5 million and HK$69 million as compared with the total assets and liabilities as at 31 December 2013 respectively.

As at 31 December 2014, property, plant and equipment of the Group amounted to HK$16.541 billion (31 December 2013: HK$15.926 billion), representing an increase of HK$614 million as compared with that as at 31 December 2013.

Lease prepayments of the Group as at 31 December 2014 amounted to HK$3.690 billion (31 December 2013: HK$3.969 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 2014, it amounted to HK$306 million (31 December 2013: HK$425 million). These assets have not started to depreciate nor amortise yet.

As at 31 December 2014, the Group had net current liabilities of approximately HK$1.821 billion. Subsequent to the balance sheet date, a wholly-owned subsidiary of the Group has obtained approval from the National Association of Financial Market Institutional Investors to issue a short term financing notes of an aggregate principal amount of up to RMB1.8 billion with a term of 366 days from the date of issuance and a private placement notes of an aggregate principal amount up to RMB2.5 billion with a term of 3 years from the date of issuance. In addition, the current bank loans which are due within one year are expected to be renewed upon maturity. In view of these, the directors believe that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the balance sheet date.

As at 31 December 2014, equity attributable to equity holders of the Company was HK$15.892 billion in total, representing a decrease of HK$58 million as compared with HK$15.950 billion as at 31 December 2013.

As at 31 December 2014, 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 attributable to shareholders) of the Group was 34.2%, representing a decrease of 0.6 percentage point as compared with 34.8% as at 31 December 2013. As at 31 December 2014, after excluding cash in bank, time deposits and pledged deposits, the net gearing ratio was 29.5% (31 December 2013: 24.6%).

Charges on Assets

As at 31 December 2014, certain properties and construction in progress of the Group with a carrying amount of HK$540 million and lease prepayments of the Group with a carrying amount of HK$506 million (31 December 2013: HK$1.019 billion and HK$539 million respectively) were pledged against certain bank loans with a total amount of HK$1.601 billion (31 December 2013: HK$2.110 billion).

As at 31 December 2014, certain secured bank loans of the Group amounted to HK$407 million (31 December 2013: HK$5.85 million) which were secured by pledged deposits and available-for-sale financial asset denominated in RMB amounting to HK$165 million and HK$101 million respectively (31 December 2013: HK$6 million and HK$Nil respectively).

As at 31 December 2014, bills payable were secured by RMB denominated pledged deposit of HK$63 million. As at 31 December 2013, there were no bills payable by the Group.

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 2015. The preliminary capital expenditure plan for 2015 as approved by the Board is currently expected to be approximately HK$500 million, which will be mainly used to complete the construction in progress. 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.

In December 2014, the Group disposed of its entire equity interest in a wholly owned subsidiary engaged in the chilled and frozen meat segment to Nanjing Runlong Business Investment Management Limited* 南京潤隆商業投資管理有限公司, which is indirectly owned as to 29% by Mr. Zhu Yicai ("Mr. Zhu"), the substantial shareholder of the Company, and directly owned as to 71% by an independent third party, at a total cash consideration of HK$683 million. A gain on disposal of subsidiary amounting to HK$355 million was recognised in profit or loss during the Review Year.

Save as disclosed herein, the Group did not hold any other significant investment nor have any substantial acquisition and disposal of subsidiaries or associated companies during the Review Year. As at the date of this report, the Group has no plan to make any significant investment in or acquisition of capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 31 December 2014.

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

Human Resources

As at 31 December 2014, the Group had approximately 19,000 (31 December 2013: approximately 23,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$911 million, accounting for 4.8% of the turnover (2013: HK$857 million, accounting for 4.0% of the turnover) of the Group.

The Group offered its employees 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 bonuses and a share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

Environmental Policies and Performance

As a responsible corporation, the Group is committed to promote environmental protection and makes its best effort to minimise the environmental impact of its existing production and business activities. During the Review Year, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to minimise waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

Other

On 26 March 2015, the Company received notice from the family members of Mr. Zhu, the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board, that a Procuratorate has imposed measures on Mr. Zhu that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). The auditors of the Company consider that they are unable to assess the impact of the Incident on the Group and have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion, and therefore have provided a disclaimer of opinion on its auditor's report in respect of the Group's consolidated financial statements for the Review Year. Please refer to the Independent Auditor's Report on pages 37 to 38 of this annual report for details of the disclaimer of opinion. However, the directors of the Company believe that the Group has been affected by this Incident but that the impact is not significant and the Group is able to continue as a going concern.

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

Biographical Details of Directors

Executive Directors

Mr. Yu Zhangli, aged 47, joined the Group in March 1996 and has been an executive Director of the Company since January 2010. Mr. Yu was the Chief Executive Officer of the Company from March to July 2012. He also holds directorships in various subsidiaries of the Company and is mainly responsible for the upstream chilled and frozen meat business of the Group. Mr. Yu was appointed as the chairman of the Board with effect from 7 July 2012 and is responsible for the strategic planning of the Group. He graduated from the School of Business Administration of Henan University with specialisation in economic management. Mr. Yu has 19 years of experience in the industry.

Mr. Li Shibao, aged 39, joined the Group in August 1999 and has been the Chief Executive Officer of the Company since 7 July 2012. Mr. Li was appointed as an executive Director of the Company with effect from 23 March 2013. 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 16 years of experience in the meat product industry.

Mr. Ge Yuqi, aged 59, 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 34 years of experience in the industry.

Mr. Sun Tiexin, aged 36, joined the Group in July 2000 and was responsible for the upstream slaughtering business of the Group. He has around 14 years of experience in the meat product industry. Mr. Sun was appointed as an executive Director of the Company with effect from 5 December 2014.

Independent Non-executive Directors

Mr. Gao Hui, aged 46, 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 specialised in finance and accounting.

Mr. Chen Jianguo, aged 53, 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.

Mr. Li Qing, aged 48, graduated from Hubei University of Automotive Technology and holds an Executive Master of Business Administration from Peking University. Mr. Li has approximately 20 years of experience in the financial industry and was the general manager of Hua An Fund Management Co., Ltd. and the managing director of China Investment Information Services Ltd. Mr. Li was awarded the "2012 Most Respected President of Fund Companies in China" and "2013 Shanghai Top Ten Leaders of Financial Industry". Mr. Li was appointed as an independent non-executive Director of the Company with effect from 5 December 2014.

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 2014 annual report, together with the report of the Directors and the financial statements of the Group for the year ended 31 December 2014.

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 was no 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 financial statements.

Results and Appropriations

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Group as at that date are set out in the financial statements on pages 39 to 111.

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 2014 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 35 to the financial statements.

Pre-emptive Rights

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

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Reserves

Details of the movements in the reserves of the Company during the year are set out in note 36 to the financial statements. Details of the movements in the reserves of the Group during the year are also included in the Consolidated Statement of Changes in Equity on page 44 of this annual report.

Financial Summary

A summary of the published results and the assets and liabilities of the Group for the last five financial years is set out on page 112 of this annual report.

Distributable Reserves

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to approximately HK$7,694,484,000.

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*
Feng Kuande	*(resigned on 5 December 2014)*
Ge Yuqi	
Sun Tiexin	*(appointed on 5 December 2014)*

Non-executive Directors

Wang Kaitian	*(resigned on 6 September 2014)*
Li Chenghua	*(resigned on 23 August 2014)*

Independent non-executive Directors

Gao Hui [A/R/N]	
Qiao Jun	*(resigned on 6 September 2014)*
Chen Jianguo [A/R/N]	
Li Qing [A]	*(appointed on 5 December 2014)*

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

The Company has received from each of Gao Hui, Chen Jianguo and Li Qing, 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. The Company also considered Qiao Jun to be independent during his term of office.

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 executive Directors of the Company.

Directors' Service Contracts

Each of the executive Directors Yu Zhangli, Li Shibao, Ge Yuqi and Sun Tiexin has entered into a service contract with the Company for a fixed term of three years commencing on 8 January 2013, 23 March 2013, 3 October 2012 and 5 December 2014 respectively. 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 the executive Directors, each of Yu Zhangli and Ge Yuqi is entitled to a basic remuneration of US$100,000 per annum, which has been increased to US$110,000 per annum from 2013; and each of Li Shibao and Sun Tiexin is entitled to a basic remuneration of US$110,000 per annum. The Company received a written confirmation from Feng Kuande pursuant to which he has agreed to waive part of his remuneration payable by the Company for his services rendered for the year ended 31 December 2014.

Each of the independent non-executive Directors, Gao Hui, Chen Jianguo and Li Qing has entered into a letter of appointment with the Company for a fixed term of three years commencing on 3 October 2012, 8 January 2013 and 5 December 2014 respectively. 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 letters of appointment entered into between the Company and the independent non-executive Directors, Gao Hui is entitled to a remuneration of HK$230,000 per annum, which has been increased to HK$253,000 per annum from 2013; Chen Jianguo is entitled to a remuneration of RMB127,000 per annum, which has been increased to RMB140,000 per annum from 2013; and Li Qing is entitled to a remuneration of RMB140,000 per annum. The Company has also received written confirmations from Wang Kaitian and Li Chenghua respectively, pursuant to which they have agreed to waive all of their remuneration payable by the Company for their services rendered for the year ended 31 December 2014.

Details of the remuneration payable to the Directors for the year ended 31 December 2014 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, Yu Zhangli and Ge Yuqi will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM"). In accordance with Bye-law 86(2) of the Company's Bye-laws, Sun Tiexin and Li Qing will also retire from office and being eligible, offer themselves for re-election at the 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 2014, 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(1)	Total	Approximate percentage of interest
Yu Zhangli	Beneficial owner	89,000	9,462,500	9,551,500	0.52%
Li Shibao	Beneficial owner	89,000	5,750,000	5,839,000	0.32%
Ge Yuqi	Beneficial owner	–	5,750,000	5,750,000	0.32%
Sun Tiexin(2)	Beneficial owner	–	3,850,000	3,850,000	0.21%

Notes:

(1) 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.

(2) Sun Tiexin was appointed as an executive Director on 5 December 2014.

Save as disclosed above, as at 31 December 2014, 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.

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 2014**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year[2]**	**As at 31 December 2014**	**Exercise price per share[5]** HK$	**Date of grant** (DD.MM.YYYY)	**Option period [1] & [2]** (DD.MM.YYYY)
Directors								
Yu Zhangli	3,925,000	–	–	(1,962,500)	1,962,500	18.04	03.09.2011	03.09.2011 – 02.09.2021
	10,000,000	–	–	(2,500,000)	7,500,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	13,925,000	–	–	(4,462,500)	9,462,500			
Li Shibao	250,000	–	–	(125,000)	125,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	7,500,000	–	–	(1,875,000)	5,625,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	7,750,000	–	–	(2,000,000)	5,750,000			
Ge Yuqi	4,000,000	–	–	(2,000,000)	2,000,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	5,000,000	–	–	(1,250,000)	3,750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	9,000,000	–	–	(3,250,000)	5,750,000			
Sun Tiexin (appointed on 5 December 2014)	200,000	–	–	(100,000)	100,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	5,000,000	–	–	(1,250,000)	3,750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	5,200,000	–	–	(1,350,000)	3,850,000			
Subtotal	35,875,000[3]	–	–	(11,062,500)	24,812,500[3]			
Other employees (including ex-employees)								
In aggregate	7,634,000	–	–	(240,000)	7,394,000	7.46	10.11.2006	10.11.2006 – 09.11.2016
	33,325,000[4]	–	–	(19,150,000)	14,175,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	32,100,000[4]	–	–	(8,025,000)	24,075,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	105,500,000	–	–	(26,375,000)	79,125,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	178,559,000	–	–	(53,790,000)	124,769,000			
Total	214,434,000	–	–	(64,852,500)	149,581,500			

Report of the Directors

Notes:

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

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

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

(4) Including 3,500,000 share options and 5,000,000 share options granted to Feng Kuande on 3 September 2011 and 25 March 2013, respectively, who resigned as a Director of the Company on 5 December 2014.

(5) 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.

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

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

Directors' Rights to Acquire Shares or Debentures

Details of share options granted to or exercised by the Directors or Qualified Participants (as defined above) of the Company during the year and their outstanding balances as at 31 December 2014 are set out in the paragraph headed "Share Option Scheme" on pages 20 to 22 of this annual report and note 34 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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 2014, 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 executive 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 (Note)	25.82%
Zhu Yicai	Long position	470,699,900 (Note)	25.82%
Wu Xueqin	Long position	470,699,900 (Note)	25.82%

Note:

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.

Save as disclosed above, as at 31 December 2014, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares and underlying shares of the Company.

Continuing Connected Transactions

Certain related party transactions as disclosed in note 40 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 Poultry Entities (as defined below)

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 Poultry Entities")) for the continue sourcing of raw poultry meat and poultry products from the Relevant Poultry Entities upon the expiration of the purchase agreement on 31 December 2013, which was entered into by the Company and Mr. Zhu (on behalf of certain entities which engaged in poultry product operations and controlled by him) on 20 December 2010. Pursuant to the Poultry Purchase Agreement, the price for the sourcing shall be determined on an arm's length basis, and negotiated between the parties to the Poultry Purchase Agreement with 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 products during the relevant period. 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 were disclosed in the Company's announcement dated 16 December 2013.

The Relevant Poultry 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.

Report of the Directors

The annual cap of transaction amounts for the financial year ended 31 December 2014 was RMB156 million and the annual caps of transaction amounts for the financial years ending 31 December 2015 and 2016 are RMB203 million and RMB243 million respectively. The aggregate purchase amount pursuant to the Poultry Purchase Agreement during the year amounted to approximately RMB143,705,000 (equivalent to approximately HK$181,354,000).

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 were 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 caps of transaction amounts for the financial years ended 31 December 2013 and 2014 were RMB3,670 million and RMB5,423 million respectively and the annual cap for the financial year ending 31 December 2015 is RMB8,613 million. The aggregate purchase amount pursuant to the Framework Purchase Agreement during the year amounted to approximately RMB195,121,000 (equivalent to approximately HK$246,241,000).

Sales of pig blood products to the Relevant Entities (as defined below)

On 24 April 2014, the Company entered into an agreement with Mr. Zhu (for and on behalf of certain entities owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of manufacturing and sales of feed stock and biotechnology development (the "Relevant Entities")) (the "Pig Blood Products Agreement"). Pursuant to the Pig Blood Products Agreement, the Company has agreed to supply to the Relevant Entities and the Relevant Entities has agreed to purchase pig blood products, from time to time, for its production use. The price shall be determined and negotiated between the respective member of the Relevant Entities and the Group with reference to the market price at the relevant time taking into account the prices and quotations for the supply of pig blood products of similar quantities obtained from independent third parties. Such price shall not be lower than the average sales price offered by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The Pig Blood Products Agreement has a term commencing on 24 April 2014 and ending on 31 December 2016. Details of the Pig Blood Products Agreement were disclosed in the Company's announcement dated 24 April 2014. The annual cap of transaction amounts for the financial year ended 31 December 2014 was RMB15.4 million and the annual caps for the financial years ending 31 December 2015 and 2016 are RMB20.0 million and RMB26.0 million respectively. The aggregate purchase amount pursuant to the Pig Blood Products Agreement during the year amounted to approximately RMB7,333,000 (equivalent to approximately HK$9,254,000).

Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. The Relevant Entities, being entities owned and/or controlled by Mr. Zhu and his associates, are associates of Mr. Zhu and also are connected persons of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps of the Pig Blood Products Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Pig Blood Products Agreement are subject to the reporting, annual review and announcement requirements but exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The transactions detailed under the headings "Purchase of raw poultry meat from the Relevant Poultry Entities", "Purchase of hogs from the Seller Group" and "Sales of pig blood products to the Relevant Entities" above 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 better; and

3. according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions 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 auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 23 to 25 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's 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 40 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.

The Group entered into a contractual arrangement with Shanghai Yurun Meat Product Co. Ltd. and its subsidiary (collectively "Shanghai Yurun") since 2005 pursuant to which the Group is entitled to the benefits, and will assume the risk of losses, from the operations of Shanghai Yurun, Shanghai Yurun is therefore a deemed subsidiary of the Company. Such contractual arrangement was put in place as the procedure under the PRC law for approving the establishment by foreign investors of retail or wholesale enterprises was stringent and time consuming, the Company therefore engaged Shanghai Yurun and made use of its well-established distribution network. Shanghai Yurun is wholly owned by Mr. Zhu. The Group has been distributing its chilled and frozen meat through Shanghai Yurun since 2003. The current distribution fee is RMB3,000,000 per year and this is one of the Group's de minimis transactions.

Post Balance Sheet Event

Details of the post balance sheet event of the Group are set out in note 41 to the financial statements.

Report of the Directors

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 was in compliance with all applicable code provisions of the Corporate Governance Code (the "CG Code") 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 Qiao Jun, an independent non-executive director, Wang Kaitian and Li Chenghua, the non-executive directors, and Yu Zhangli, the executive director and Chairman of the Board, were absent from the annual general meeting of the Company held on 20 May 2014 for their overseas or other engagements.

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 of the Company in the securities of the Company. The Company, having made specific enquiry of all directors of the Company, 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.

Inside Information

Reference is made to the announcement of the Company dated 30 March 2015 relating to the imposition of measures by Procuratorate on Mr. Zhu to stay at a designated residence in China since 23 March 2015 (the "Measures").

The Company will continue to assess the impact of the Measures on the Company and will make further announcement if there is any further information and clarification regarding the Measures.

By Order of the Board

Yu Zhangli
Chairman
Hong Kong, 31 March 2015

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 2014 to 31 December 2014 (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 E.1.2 and A.6.7 of the CG Code as the executive Director and Chairman of the Board, an independent non-executive Director and other non-executive Directors were absent from the annual general meeting of the Company held on 20 May 2014 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 seven Directors including, Yu Zhangli (Chairman), Li Shibao, Ge Yuqi and Sun Tiexin as executive Directors and Gao Hui, Chen Jianguo and Li Qing 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 Sun Tiexin who was appointed as an executive Director with effect from 5 December 2014 and Li Qing who was appointed as an independent non-executive Director with effect from 5 December 2014, all the Directors as at the date of this annual report served throughout the Review Year. During the Review Year, Feng Kuande resigned as an executive Director with effect from 5 December 2014, Wang Kaitian and Li Chenghua resigned as non-executive Directors with effect from 6 September 2014 and 23 August 2014 respectively, and Qiao Jun resigned as an independent non-executive Director with effect from 6 September 2014.

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 and the independent 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, Chen Jianguo and Li Qing, 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.

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	2/2	0/1
Li Shibao *(Chief Executive Officer)*	4/4	N/A	N/A	N/A	1/1
Feng Kuande *(resigned on 5 December 2014)*	1/4	N/A	N/A	N/A	0/1
Ge Yuqi	4/4	N/A	N/A	N/A	0/1
Sun Tiexin *(appointed on 5 December 2014)*	–+	N/A	N/A	N/A	–+
Non-executive Directors					
Wang Kaitian *(resigned on 6 September 2014)*	3/3+	N/A	N/A	N/A	0/1
Li Chenghua *(resigned on 23 August 2014)*	3/3+	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Gao Hui	4/4	6/6	2/2	2/2	1/1
Qiao Jun *(resigned on 6 September 2014)*	3/3+	4/5+	1/1+	N/A	0/1
Chen Jianguo	4/4	6/6	1/1+	2/2	1/1
Li Qing *(appointed on 5 December 2014)*	–+	–+	N/A	N/A	–+

* *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 practice.

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, Sun Tiexin and Li Qing received an induction on the responsibilities and obligations of directors under the Listing Rules, the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO") 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 corporate governance 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* Li Qing* *(appointed on 5 December 2014)* Qiao Jun* *(resigned on 6 September 2014)*	Gao Hui* *(Chairman) (appointed on 6 September 2014)* Yu Zhangli+ Chen Jianguo* *(appointed on 6 September 2014)* Qiao Jun* *(Chairman) (resigned on 6 September 2014)*	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 include 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 align with 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 that 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 • Determined the remuneration packages and made recommendations to the Board on the remuneration proposals of the newly appointed 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 • Identified suitable candidates and nominated for the approval of the Board to fill Board vacancies

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.

The Board has 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 and continue to give adequate consideration to the above measurable objectives when making recommendations of candidates for appointment to the Board.

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
2014 Annual audit	7,745
Non-audit services*	2,701
Total	10,446

* *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 of reasonably assuring 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 SFO 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 should 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 by the Internal Audit Department 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 a press conference for annual results announcement as well as one-on-one and group meetings with analysts and senior representatives from renowned fund management companies, participated in post-results roadshows held in various regions, including Hong Kong, the United Kingdom and the United States, and organised site visits for shareholders and institutional investors to visit its manufacturing facilities in 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, such shareholder 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.

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

Independent auditor's report to the shareholders of
China Yurun Food Group Limited
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of China Yurun Food Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 39 to 111, which comprise the consolidated and company balance sheets as at 31 December 2014, 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.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditor's Report

Basis for disclaimer of opinion

Going concern

As at 31 December 2014, the Group had net current liabilities of $1,821,046,000. Its total borrowings and finance lease liabilities amounted to $8,257,107,000, out of which $5,464,417,000 is due within 12 months of that date. The Group had operating cash outflow of $464,537,000 for the year ended 31 December 2014. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

On 26 March 2015, the Company received notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board of Directors and a director of certain key operating subsidiaries of the Group, that a Procuratorate has imposed measures on Mr. Zhu such that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). The directors of the Company believe that the Group has been affected by this Incident but that the impact is not significant and the Group is able to continue as a going concern.

In making our assessment of the Group's ability to continue to obtain sufficient financing and continue as a going concern, we are unable to assess the consequential impact of the Incident to the Group. Given these circumstances, there were no practicable audit procedures that we could perform to form an assessment on whether the directors' assessment of its ability to continue as a going concern considers all events and conditions which may be relevant.

Recoverability of receivable arising from the disposal of a subsidiary

Included in trade and other receivables as of 31 December 2014 was a balance arising from the disposal of a subsidiary of $622,284,000 receivable from Nanjing Runlong Business Investment Management Limited which is indirectly owned as to 29% by Mr. Zhu due in June 2015. We are unable to assess the impact of the Incident on the recoverability of this receivable as at 31 December 2014. Any impairment loss recognised against this receivable would affect the net assets as at 31 December 2014 and the profit for the year then ended.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit for the year then ended in accordance with International Financial Reporting Standards and as to whether the financial statements 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

31 March 2015

Consolidated Balance Sheet

At 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	16	**16,540,504**	15,926,126
Investment properties	17	**–**	205,944
Lease prepayments	18	**3,606,989**	3,881,766
Goodwill	20	**96,405**	96,736
Interest in a joint venture	22	**14,881**	18,268
Non-current prepayments	23	**305,831**	424,651
Deferred tax assets	24	**20,167**	28,064
		20,584,777	20,581,555
Current assets			
Inventories	25	**1,390,172**	1,170,362
Other investment	26	**101,407**	–
Current portion of lease prepayments	18	**82,860**	87,579
Trade and other receivables	27	**3,662,104**	2,608,302
Income tax recoverable	10	**1,581**	4,365
Pledged deposits	28	**232,809**	11,483
Time deposits		**6,168**	33,629
Cash and cash equivalents	29	**885,028**	2,444,694
		6,362,129	6,360,414
Current liabilities			
Bank loans	30	**3,818,771**	3,415,390
Medium term notes	31	**1,645,097**	–
Finance lease liabilities	32	**549**	634
Trade and other payables	33	**2,706,331**	2,244,741
Income tax payable	10	**12,427**	11,091
		8,183,175	5,671,856
Net current (liabilities)/assets		**(1,821,046)**	688,558
Total assets less current liabilities		**18,763,731**	21,270,113

Consolidated Balance Sheet

At 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Bank loans	30	**1,379,154**	1,977,820
Medium term notes	31	**1,266,629**	2,921,312
Finance lease liabilities	32	**146,907**	181,763
Deferred tax liabilities	24	**23,729**	177,904
		2,816,419	5,258,799
NET ASSETS		**15,947,312**	16,011,314
EQUITY			
Share capital	35	**182,276**	182,276
Reserves	36	**15,709,968**	15,767,735
Total equity attributable to equity holders of the Company		**15,892,244**	15,950,011
Non-controlling interests		**55,068**	61,303
TOTAL EQUITY		**15,947,312**	16,011,314

Approved and authorised for issue by the Board of Directors on 31 March 2015.

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 47 to 111 are an integral part of these financial statements.

Balance Sheet

At 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 $'000	2013 $'000
Non-current assets			
Investments in subsidiaries	19	**709,847**	709,847
Current assets			
Other receivables	27	**467**	467
Amounts due from subsidiaries		**7,174,727**	7,090,149
Cash and cash equivalents	29	**3,213**	97,156
		7,178,407	7,187,772
Current liabilities			
Other payables	33	**11,494**	6,063
Net current assets		**7,166,913**	7,181,709
Total assets less current liabilities		**7,876,760**	7,891,556
NET ASSETS		**7,876,760**	7,891,556
EQUITY			
Share capital	35	**182,276**	182,276
Reserves	36	**7,694,484**	7,709,280
TOTAL EQUITY		**7,876,760**	7,891,556

Approved and authorised for issue by the Board of Directors on 31 March 2015.

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 47 to 111 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 HK$'000	2013 HK$'000
Turnover	6	**19,157,889**	21,440,039
Cost of sales		**(18,171,316)**	(20,674,384)
Gross profit		**986,573**	765,655
Other net income	7	**882,023**	1,203,571
Distribution expenses		**(697,482)**	(704,798)
Administrative and other operating expenses		**(1,005,533)**	(1,002,160)
Results from operating activities		**165,581**	262,268
Finance income		**34,391**	77,046
Finance costs		**(267,107)**	(231,313)
Net finance costs	8(a)	**(232,716)**	(154,267)
Share of loss of an associate (net of income tax)	21	**–**	(290)
Share of loss of a joint venture (net of income tax)	22	**(3,310)**	(4,218)
(Loss)/profit before income tax	8	**(70,445)**	103,493
Income tax credit/(expense)	9	**127,386**	(64,059)
Profit for the year		**56,941**	39,434
Attributable to:			
Equity holders of the Company		**56,774**	43,592
Non-controlling interests		**167**	(4,158)
Profit for the year		**56,941**	39,434
Earnings per share			
Basic ($)	15(a)	**0.031**	0.024
Diluted ($)	15(b)	**0.031**	0.024

The notes on pages 47 to 111 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 HK$'000	2013 HK$'000
Profit for the year		**56,941**	39,434
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		**(47,907)**	433,263
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries		**(67,947)**	(14,299)
		(115,854)	418,964
Total comprehensive income for the year		**(58,913)**	458,398
Attributable to:			
Equity holders of the Company		**(58,871)**	460,827
Non-controlling interests		**(42)**	(2,429)
Total comprehensive income for the year		**(58,913)**	458,398

The notes on pages 47 to 111 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company									
	Note	Share capital (Note 35) $'000	Share premium (Note 36(b)) $'000	Capital surplus (Note 36(c)) $'000	Merger reserve (Note 36(d)) $'000	PRC statutory reserves (Note 36(e)) $'000	Exchange reserve (Note 36(f)) $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
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	37	–	–	–	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
At 1 January 2014		**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**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**56,774**	**56,774**	**167**	**56,941**
Total other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(115,645)**	**-**	**(115,645)**	**(209)**	**(115,854)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(115,645)**	**56,774**	**(58,871)**	**(42)**	**(58,913)**
Transfer to reserves		**-**	**-**	**-**	**-**	**15,299**	**-**	**(15,299)**	**-**	**-**	**-**
Disposal of a subsidiary	37	**-**	**-**	**-**	**(1,603)**	**(2,813)**	**-**	**4,416**	**-**	**-**	**-**
Acquisition of additional equity interest in a subsidiary	21	**-**	**-**	**-**	**1,104**	**-**	**-**	**-**	**1,104**	**(6,193)**	**(5,089)**
At 31 December 2014		**182,276**	**7,400,418**	**3,887**	**(70,363)**	**876,084**	**1,767,538**	**5,732,404**	**15,892,244**	**55,068**	**15,947,312**

The notes on pages 47 to 111 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Profit for the year		**56,941**	39,434
Adjustments for:			
Depreciation		**532,748**	533,192
Gain on disposal of subsidiaries	7	**(354,669)**	(444,225)
Amortisation of lease prepayments		**87,127**	85,099
Interest income		**(13,077)**	(23,114)
Investment income from available-for-sale financial assets		**(21,314)**	(23,379)
Finance costs		**262,021**	231,313
Share of loss of an associate		**–**	290
Share of loss of a joint venture		**3,310**	4,218
(Gain)/loss on disposal of property, plant and equipment		**(10,998)**	1,732
Loss on disposal of lease prepayment		**1,627**	–
Unrealised foreign exchange loss/(gain)		**3,124**	(26,490)
Income tax (credit)/expense		**(127,386)**	64,059
Operating profit before change in working capital		**419,454**	442,129
Change in inventories		**(222,843)**	538,103
Change in trade and other receivables		**(439,788)**	(538,082)
Change in trade and other payables		**263,731**	(268,568)
Cash generated from operating activities		**20,554**	173,582
Finance costs paid		**(471,342)**	(393,716)
Income tax paid		**(13,749)**	(75,801)
Net cash used in operating activities		**(464,537)**	(295,935)

Consolidated Cash Flow Statement

For the year ended 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 $'000	2013 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**12,354**	9,425
Proceeds from sale of available-for-sale financial assets		**658,619**	1,323,667
Proceeds from disposal of subsidiaries	37	**62,806**	605,133
Proceeds from disposal of lease prepayments		**899**	-
Interest received		**13,077**	23,114
Acquisition of property, plant and equipment		**(698,835)**	(1,597,340)
Payments for lease prepayments		**(1,009)**	(154,872)
Acquisition of available-for-sale financial assets		**(738,263)**	(1,300,288)
Changes in time deposits		**27,225**	(29,893)
Acquisition of addition equity interest in a subsidiary		**(5,089)**	-
Net cash used in investing activities		**(668,216)**	(1,121,054)
Cash flows from financing activities			
Proceeds from bank loans		**3,690,752**	4,673,033
Proceeds from medium term notes		**-**	1,244,642
Repayments of bank loans		**(3,872,894)**	(4,943,866)
Capital element of finance lease rentals paid		**(567)**	(597)
Interest element of finance lease rentals paid		**(5,910)**	(6,620)
Changes in pledged deposits		**(220,387)**	10,626
Net cash (used in)/generated from financing activities		**(409,006)**	977,218
Net decrease in cash and cash equivalents		**(1,541,759)**	(439,771)
Cash and cash equivalents at 1 January		**2,444,694**	2,812,267
Effect of exchange rate fluctuations on cash held		**(17,907)**	72,198
Cash and cash equivalents at 31 December	29	**885,028**	2,444,694

The notes on pages 47 to 111 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 2014 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in 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 31 March 2015.

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"). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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) Going concern basis

As at 31 December 2014, the Group had net current liabilities of $1,821,046,000. Its total borrowings and finance lease liabilities amounted to $8,257,107,000, out of which $5,464,417,000 is due within 12 months of that date. The Group had operating cash outflow of $464,537,000 for the year ended 31 December 2014. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Group have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include but are not limited to the following:

(i) Actively negotiating with a number of commercial banks for renewal and securing new loans or facilities. Subsequent to the balance sheet date, a wholly-owned subsidiary of the Group has obtained approval from National Association of Financial Market Institutional Investors to issue (i) short term financing notes of an aggregate principal amount of up to Renminbi ("RMB") 1.8 billion with a term of 366 days from the date of issuance and (ii) private placement notes of an aggregate principal amount of up to RMB2.5 billion with a term of 3 years from the date of issuance;

(ii) Taking active measures to expedite collections of outstanding receivables; and

(iii) Implementing comprehensive policies to improve profitability.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Basis of preparation (continued)

(b) Going concern basis (continued)

The directors have reviewed the Group's cash flow projections covering a period of twelve months from the balance sheet date prepared by management. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the balance sheet date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

In addition, on 26 March 2015, the Company received notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board of Directors and a director of certain key operating subsidiaries of the Group, that a Procuratorate has imposed measures on Mr. Zhu such that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). The directors of the Company believe that the Group has been affected by this Incident but that the impact is not significant and the Group is able to continue as a going concern.

(c) 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.

(d) 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 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.

(e) 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 2(b), 4 and 42.

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 new interpretation and a number of 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 32, *Financial Instruments: Presentation – Offsetting financial assets and financial liabilities*

– Amendments to IAS 36, *Impairment of assets "Recoverable amount disclosures for non-financial assets"*

– International Financial Reporting Interpretations Committee 21, *Levies*

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 interpretation and amended IFRSs are discussed below:

Amendments to IAS 32, Financial Instruments: Presentation – Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Impairment of assets "Recoverable amount disclosures for non-financial assets"

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

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.

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)

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see accounting policy (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 joint ventures

The Group's interest in equity-accounted investees comprises interest in a joint venture.

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.

Interest in the joint venture is 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 joint control ceases.

When the Group's share of losses exceeds its interest in 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 joint venture.

When the Group ceases to have 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 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

(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.

(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)).

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)

Cash and cash equivalents

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy (k)) and foreign currency differences on available-for-sale debt instruments (see accounting policy (c)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(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.

(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 - 40 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.

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)

(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)).

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and distribution expenses.

(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 there 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.

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)

Financial assets measured at amortised cost (continued)

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.

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 CGU exceeds its recoverable amount.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Non-financial assets (continued)

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 rota 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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(l) Employee benefits (continued)

(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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(n) Revenue recognition (continued)

(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.

Deferred tax assets are 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(r) Income tax expense (continued)

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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(t) Segment reporting (continued)

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

4 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Operating segments (continued)

(a) Segment results

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

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

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

– 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 expense.

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Operating segments (continued)

(a) Segment results (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2014	2013	**2014**	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**16,414,673**	18,507,916	**2,743,216**	2,932,123	**19,157,889**	21,440,039
Inter-segment revenue	**748,169**	656,449	**15,853**	17,019	**764,022**	673,468
Reportable segment revenue	**17,162,842**	19,164,365	**2,759,069**	2,949,142	**19,921,911**	22,113,507
Depreciation and amortisation	**(506,001)**	(504,683)	**(98,004)**	(97,693)	**(604,005)**	(602,376)
Reversal of/(provision for) impairment losses on trade and other receivables	**5,109**	(1,394)	**21,727**	(26,250)	**26,836**	(27,644)
Government subsidies	**83,522**	630,747	**330,591**	72,508	**414,113**	703,255
Reportable segment (loss)/profit	**(504,414)**	(166,532)	**360,572**	56,658	**(143,842)**	(109,874)
Income tax expense	**(5,595)**	(4,460)	**(25,197)**	(59,115)	**(30,792)**	(63,575)

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

	2014 $'000	2013 $'000
Revenue		
Total revenue from reportable segments	**19,921,911**	22,113,507
Elimination of inter-segment revenue	**(764,022)**	(673,468)
Consolidated revenue	**19,157,889**	21,440,039
Profit		
Reportable segment loss	**(143,842)**	(109,874)
Elimination of inter-segment profits	**601**	(7,329)
Reportable segment loss derived from the Group's external customers	**(143,241)**	(117,203)
Share of loss of an associate	**–**	(290)
Share of loss of a joint venture	**(3,310)**	(4,218)
Net finance costs	**(232,716)**	(154,267)
Income tax credit/(expense)	**127,386**	(64,059)
Unallocated head office and corporate expenses	**(45,847)**	(64,754)
Gain on disposal of subsidiaries	**354,669**	444,225
Consolidated profit for the year	**56,941**	39,434

(c) Geographical information

The Group's revenue and profit 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 2014 and 2013, 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

	2014 $'000	2013 $'000
Government subsidies	**415,966**	710,438
Gain on disposal of subsidiaries (note 37)	**354,669**	444,225
Rental income	**42,727**	19,377
Sales of scrap	**773**	2,638
Sundry income	**67,888**	26,893
	882,023	1,203,571

8 (Loss)/profit before income tax

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

(a) Net finance costs

	2014 $'000	2013 $'000
Interest on bank loans and medium term notes wholly repayable within five years	**475,991**	378,982
Interest on bank loans not wholly repayable within five years	**–**	64,493
Interest on lease obligations	**5,910**	6,620
Less: Interest expense capitalised into property, plant and equipment under development*	**(221,527)**	(220,885)
	260,374	229,210
Bank charges	**1,647**	2,103
Net foreign exchange loss/(gain)	**5,086**	(30,553)
Interest income from bank deposits	**(13,077)**	(23,114)
Investment income from available-for-sale financial assets	**(21,314)**	(23,379)
	232,716	154,267

* The borrowing costs have been capitalised at a rate of 6.2% per annum (2013: 5.4%).

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 (Loss)/profit before income tax (continued)

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

(b) Personnel expenses

	2014 $'000	2013 $'000
Salaries, wages and other benefits	**830,553**	773,388
Contributions to defined contribution pension schemes	**80,532**	83,320
	911,085	856,708

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% (2013: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2014.

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 $30,000 ($25,000 prior to June 2014). 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 (Loss)/profit before income tax (continued)

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

(c) Other items

	2014	2013
	$'000	$'000
Cost of inventories#	**18,171,316**	20,674,384
Impairment losses on trade and other receivables	**8,980**	28,111
Reversal of impairment losses on trade and other receivables	**(35,816)**	(467)
Depreciation	**532,748**	533,192
(Gain)/loss on disposal of property, plant and equipment	**(10,998)**	1,732
Loss on disposal of lease prepayment	**1,627**	-
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**11,893**	11,911
– contingent rent	**-**	8,358
Amortisation of lease prepayments	**87,127**	85,099
Research and development expenses (other than amortisation costs)	**22,863**	26,170
Auditors' remuneration		
– audit services	**7,745**	7,570
– other services	**2,701**	1,827

\# Cost of inventories includes $609,629,000 (2013: $588,662,000) 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.

9 Income tax (credit)/expense

Income tax (credit)/expense in the consolidated income statement represents:

	Note	**2014**	2013
		$'000	$'000
Current tax expense			
Current year	10	**14,562**	66,645
Under/(over)-provision in respect of prior years	10	**3,516**	(121)
		18,078	66,524
Deferred tax credit			
Origination and reversal of temporary differences	24(b)	**(145,464)**	(2,465)
Income tax (credit)/expense in the consolidated income statement		**(127,386)**	64,059

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Income tax (credit)/expense (continued)

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

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2014 and 2013.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the years ended 31 December 2014 and 2013, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the years ended 31 December 2014 and 2013.

(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.

The Company's directors reviewed the dividend policy of the Group in 2014. To retain funding for operations and future development, it was resolved that the Group's PRC subsidiaries will not distribute dividend to the offshore holding companies in the foreseeable future. Accordingly, a reversal of deferred tax liability of $158,839,000 in respect of profits from the PRC subsidiaries was recognised during the year ended 31 December 2014.

As at 31 December 2014, temporary differences relating to the undistributed profits of subsidiaries amounted to $6,032,697,000 (2013: $6,020,469,000). Deferred tax liabilities of $301,635,000 (2013: $141,277,000) in respect of the undistributed profits of $6,032,697,000 (2013: $2,825,530,000) were not recognised as at 31 December 2014 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 $373,967,000 (2013: $269,783,000) 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 as a PRC resident enterprise and subject to PRC corporate 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 corporate 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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

9 Income tax (credit)/expense (continued)

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

	2014 **$'000**	2013 $'000
(Loss)/profit before income tax	**(70,445)**	103,493
Income tax using the PRC corporate income tax rate of 25% (2013: 25%)	**(17,611)**	25,873
Effect of tax rate differential	**12,569**	16,932
Non-taxable income	**(136,348)**	(153,559)
Non-deductible expenses	**5,564**	7,750
Under/(over)-provision in respect of prior years	**3,516**	(121)
Withholding tax on profits from PRC subsidiaries	**523**	379
Reversal of withholding tax on profits from PRC subsidiaries recognised in prior years	**(158,839)**	–
Recognition of tax expense in relation to interest income from PRC subsidiaries	**137**	105
Effect of tax losses not recognised	**32,427**	33,251
Effect of utilisation of unrecognised tax losses in prior years	**(6,381)**	(55,584)
Effect of tax concessions	**137,057**	189,033
Income tax (credit)/expense	**(127,386)**	64,059

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 Income tax recoverable/(payable)

Current taxation in the consolidated balance sheet represents:

The Group

	2014	2013
	$'000	$'000
At beginning of the year	**(6,726)**	(15,248)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	**(14,562)**	(66,645)
(Under)/over-provision in respect of prior years	**(3,516)**	121
Disposal of a subsidiary	**212**	–
PRC income tax and withholding tax paid	**13,749**	75,801
Effect of movements in exchange rates	**(3)**	(755)
At end of the year	**(10,846)**	(6,726)
Represented by:		
Income tax recoverable	**1,581**	4,365
Income tax payable	**(12,427)**	(11,091)
	(10,846)	(6,726)

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 78 of Schedule 11 of the new Hong Kong Companies Ordinance (Cap. 622) with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32) and Appendix 16 to the Listing Rules is as follows:

	2014						
	Directors' 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	–	1,668	41	–	1,709	–	1,709
Feng Kuande (resigned on 5 December 2014)	–	673	26	–	699	–	699
Ge Yuqi	–	1,659	41	–	1,700	–	1,700
Li Shibao	–	900	41	–	941	–	941
Sun Tiexin (appointed on 5 December 2014)	–	26	3	–	29	–	29
Non-executive directors							
Wang Kaitian (resigned on 6 September 2014)	–	–	–	–	–	–	–
Li Chenghua (resigned on 23 August 2014)	–	–	–	–	–	–	–
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Qiao Jun (resigned on 6 September 2014)	120	–	–	–	120	–	120
Chen Jianguo	177	–	–	–	177	–	177
Li Qing (appointed on 5 December 2014)	13	–	–	–	13	–	13
Total	563	4,926	152	–	5,641	–	5,641

Notes to the Consolidated Financial Statements

(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 78 of Schedule 11 of the new Hong Kong Companies Ordinance (Cap. 622) with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32) and Appendix 16 to the Listing Rules is as follows: (continued)

	2013						
	Directors' 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

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 the principal terms and number of options granted, are disclosed in note 34.

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(Expressed in Hong Kong dollars unless otherwise indicated)

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

Li Chenghua and Wang Kaitian have agreed to waive all of their director emoluments under the existing service agreement for the years ended 31 December 2014 and 2013. Feng Kuande has agreed to waive part of his director emoluments under the existing service agreement for the years ended 31 December 2014 and 2013.

The remunerations of Sun Tiexin for the year ended 31 December 2014 include his remuneration for the period from 5 December 2014 to 31 December 2014. His remuneration in the capacity of general manager of various subsidiaries of the Company for the period from 1 January 2014 to 4 December 2014, was not included in the disclosure above.

The remunerations of Li Shibao for the year ended 31 December 2013 include 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 three (2013: two) existing directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining two individuals during the year, and the emoluments in respect of the remaining three individuals during the year ended 31 December 2013 are as follows:

	2014 **$'000**	2013 $'000
Salaries and other emoluments	**15,594**	9,853
Contributions to retirement benefit schemes	**34**	60
	15,628	9,913

The emoluments fell within the following bands:

	2014 **Number of individuals**	2013 Number of individuals*
$1,500,001 – $2,000,000	**–**	1
$3,000,001 – $3,500,000	**–**	1
$4,000,001 – $4,500,000	**–**	1
$6,000,001 – $6,500,000	**1**	–
$9,000,001 – $9,500,000	**1**	–

* including the resigned director during the year ended 31 December 2013

For the years ended 31 December 2014 and 2013, 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 attributable to equity holders of the Company

The loss attributable to equity holders of the Company includes a loss of $14,796,000 (2013: $9,698,000) 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 2014 and 2013.

15 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the profit attributable to equity holders of the Company for the year of $56,774,000 (2013: $43,592,000) and the weighted average number of 1,822,756,000 (2013: 1,822,756,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2014 **'000**	2013 '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 per share

Diluted earnings per share equals to basic earnings per share for the years ended 31 December 2014 and 2013 because the potential ordinary shares outstanding were anti-dilutive.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 2013	8,025,288	3,408,744	247,011	211,701	4,358,524	16,251,268
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
At 1 January 2014	**8,490,976**	**3,642,559**	**247,502**	**248,395**	**5,543,313**	**18,172,745**
Additions	**26,156**	**14,597**	**2,236**	**13,998**	**1,200,526**	**1,257,513**
Transfers	**631,033**	**67,043**	**–**	**125**	**(698,201)**	**–**
Disposals	**(51,673)**	**(17,639)**	**(2,330)**	**(9,958)**	**–**	**(81,600)**
Disposed of through disposal of a subsidiary	**(22,093)**	**(10,704)**	**(428)**	**(1,287)**	**(5,976)**	**(40,488)**
Effect of movements in exchange rates	**(28,487)**	**(12,211)**	**(362)**	**(843)**	**(15,107)**	**(57,010)**
At 31 December 2014	**9,045,912**	**3,683,645**	**246,618**	**250,430**	**6,024,555**	**19,251,160**
Accumulated depreciation:						
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
At 1 January 2014	**1,067,997**	**987,683**	**73,604**	**117,335**	**–**	**2,246,619**
Depreciation for the year	**258,294**	**219,065**	**19,460**	**30,055**	**–**	**526,874**
Disposals	**(26,812)**	**(11,180)**	**(701)**	**(7,951)**	**–**	**(46,644)**
Disposed of through disposal of a subsidiary	**(6,033)**	**(3,441)**	**(67)**	**(584)**	**–**	**(10,125)**
Effect of movements in exchange rates	**(3,132)**	**(2,499)**	**(129)**	**(308)**	**–**	**(6,068)**
At 31 December 2014	**1,290,314**	**1,189,628**	**92,167**	**138,547**	**–**	**2,710,656**
Carrying amounts:						
At 31 December 2014	**7,755,598**	**2,494,017**	**154,451**	**111,883**	**6,024,555**	**16,540,504**
At 31 December 2013	7,422,979	2,654,876	173,898	131,060	5,543,313	15,926,126

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 $2,187,456,000 (2013: $1,879,602,000) at 31 December 2014 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 2014.

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 2014, the carrying amount of leased property, plant and equipment was $88,163,000 (2013: $117,653,000).

Security

At 31 December 2014, certain properties and construction in progress with carrying amounts of $439,748,000 (2013: $874,206,000) and $100,308,000 (2013: $144,627,000) respectively were pledged against bank loans (see note 30).

Changes in estimates

In view of the actual utilisation and condition of the production facilities, the Group changed the useful lives of properties from 20-30 years to 20-40 years from 1 November 2014.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Property, plant and equipment (continued)

Changes in estimates (continued)

The change in estimates lead to an increase in profit before income tax by approximately $12,907,000 for the year ended 31 December 2014.

The approximate effect of the change in estimates on profit before tax expense in the future periods is not disclosed since it is impractical to estimate that effect because of the timing for the transfer from construction in progress to property, plant and equipment is uncertain.

17 Investment properties

The Group

	2014	2013
	$'000	$'000
Cost:		
At 1 January	**251,989**	244,344
Disposed of through disposal of a subsidiary	**(250,018)**	–
Effect of movements in exchange rates	**(1,971)**	7,645
At 31 December	**–**	251,989
Accumulated depreciation:		
At 1 January	**46,045**	37,318
Charge for the year	**5,874**	7,449
Disposed of through disposal of a subsidiary	**(51,558)**	–
Effect of movements in exchange rates	**(361)**	1,278
At 31 December	**–**	46,045
Carrying amounts:		
At 31 December	**–**	205,944

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment properties (continued)

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.

From 1 January 2014 to 12 December 2014 ("period"), $25,057,000 (2013: $29,238,000) was recognised as rental income in profit or loss. Direct operating expenses (including repairs and maintenance) arising from the investment properties recognised during the period amounted to $14,539,000 (2013: $16,867,000).

In 2014, the Group disposed of its entire equity interest in its owned subsidiary which held the Group's investment properties (see note 37).

The aggregate fair value of the investment properties at 31 December 2013 was approximately $312,794,000.

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 fair value measurement was categorised as a level 3 fair value based on the inputs to the valuation technique used in 2013.

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 38 to 50 years.

At 31 December 2014, land use rights with a carrying amount of $565,453,000 (2013: $600,164,000) were pledged against bank loans and unutilised bank loan facilities (see note 30).

19 Investments in subsidiaries

The Company

	2014	2013
	$'000	$'000
Unlisted shares, at cost	**709,847**	709,847

Particulars of principal subsidiaries are set out in Appendix 1 on pages 110 to 111.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Goodwill

The Group

	2014 $'000	2013 $'000
At 1 January	**96,736**	93,801
Effect of movements in exchange rates	**(331)**	2,935
At 31 December	**96,405**	96,736

Impairment testing for cash-generating unit containing goodwill

Goodwill is allocated to the northern region of chilled and frozen meat segment. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculation use cash flow projections based on a financial forecast covering a period of five years.

Key assumptions used for the value-in-use calculations

The Group

	2014 %	2013 %
Gross margin	**8**	8
Growth rate	**21**	21
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%, (2013: 0%) which does not exceed the long-term average growth rate for the business in which the CGU operates.

21 Interest in an associate

Details of the associate as at 3 September 2013 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 Lianyungang Company Limited ("Runyang Biotech") * 潤揚生物科技連雲港有限公司	The PRC	RMB 10,000,000	45%	Production and sales of pharmaceutical products

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Interest in an associate (continued)

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.

The fair value of the interest in associate was close to its carrying value on 3 September 2013 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 results. 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:

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

The Group acquired the remaining 33% equity interest of Runyang Biotech from another independent shareholder on 23 December 2014 at cash consideration $5,089,000, the attributable equity interest held by the Group has increased from 67% to 100%.

22 Interest in a joint venture

The Group

	2014 **$'000**	2013 $'000
Share of net assets	**14,881**	18,268

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Interest in a joint venture (continued)

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.

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:

	2014 $'000	2013 $'000
Carrying amount of the joint venture in the consolidated financial statements	**14,881**	18,268
The Group's share of the joint venture's results:		
Loss for the year	**(3,310)**	(4,218)
Other comprehensive income	**(77)**	621
Total comprehensive income	**(3,387)**	(3,597)

23 Non-current prepayments

The Group

	2014 $'000	2013 $'000
Prepayments for acquisitions of land use rights	**98,257**	130,253
Prepayments for acquisitions of property, plant and equipment	**207,574**	294,398
	305,831	424,651

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2014 are attributable to the following:

The Group

	Assets		Liabilities		Net	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Property, plant and equipment	**18,912**	21,476	**(23,729)**	(18,157)	**(4,817)**	3,319
Impairment losses on trade and other receivables	**1,255**	6,588	**–**	–	**1,255**	6,588
Withholding tax on profits from PRC subsidiaries	**–**	–	**–**	(159,747)	**–**	(159,747)
Total deferred tax assets/(liabilities)	**20,167**	28,064	**(23,729)**	(177,904)	**(3,562)**	(149,840)

(b) Movements in temporary differences

Movements in temporary differences during the year are as follows:

The Group

	At 1 January 2013 $'000	Recognised in profit or loss $'000	Exchange difference $'000	At 31 December 2013 $'000	**Recognised in profit or loss $'000**	**Exchange difference $'000**	**At 31 December 2014 $'000**
Property, plant and equipment	6,791	(3,566)	94	3,319	**(8,090)**	**(46)**	**(4,817)**
Impairment losses on trade and other receivables	453	6,031	104	6,588	**(5,285)**	**(48)**	**1,255**
Withholding tax on profits from PRC subsidiaries	(155,234)	–	(4,513)	(159,747)	**158,839**	**908**	**–**
Total	(147,990)	2,465	(4,315)	(149,840)	**145,464**	**814**	**(3,562)**

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 Inventories

The Group

	2014	2013
	$'000	$'000
Raw materials	**327,747**	313,476
Work in progress	**134,022**	176,460
Finished goods	**928,403**	680,426
	1,390,172	1,170,362

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

	2014	2013
	$'000	$'000
Carrying amount of inventories sold	**18,103,236**	20,594,576
Write down of inventories	**68,080**	79,808
	18,171,316	20,674,384

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

26 Other investment

The Group

	2014	2013
	$'000	$'000
Available-for-sale financial asset, unlisted	**101,407**	–

The directors considered that the available-for-sale financial asset does not have a quoted market price in an active market. However, in view of the short maturity, the directors are of the opinion that the fair value of the available-for-sale financial asset approximates its cost at the balance sheet date.

At 31 December 2014, available-for-sale financial asset with carrying amount of $101,407,000 (2013: $Nil) was pledged against a bank loan (see note 30).

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27 Trade and other receivables

	The Group		The Company	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Trade receivables (note (a))	**772,992**	723,600	**–**	–
Bills receivable	**16,045**	26,904	**–**	–
Value-added tax recoverable	**1,863,210**	1,606,379	**–**	–
Deposits and prepayments	**96,851**	155,323	**467**	467
Receivable arising from the disposal of a subsidiary	**622,284**	–	**–**	–
Others	**290,722**	96,096	**–**	–
	3,662,104	2,608,302	**467**	467

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

The Group's exposure to credit and currency risk related to trade and other receivables are disclosed in note 38.

(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

	2014	2013
	$'000	$'000
Within 30 days	**365,499**	433,858
31 days to 90 days	**167,953**	137,238
91 days to 180 days	**122,568**	146,152
Over 180 days	**116,972**	6,352
	772,992	723,600

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Trade and other receivables (continued)

(b) Impairment of trade debtors

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

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

The Group

	2014	2013
	$'000	$'000
At 1 January	**38,733**	10,354
Impairment losses recognised	**8,980**	28,111
Reversal of impairment losses on trade debtors	**(35,816)**	(467)
Effect of movements in exchange rate	**(243)**	735
At 31 December	**11,654**	38,733

At 31 December 2014, the Group's trade debtors of $11,654,000 (2013: $38,733,000) 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 $11,654,000 (2013: $38,733,000) were recognised.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Trade and other receivables (continued)

(c) Trade debtors that are not impaired

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

The Group

	2014 $'000	2013 $'000
Neither past due nor impaired	**633,893**	641,486
Less than 1 month past due	**89,466**	43,158
1 to 3 months past due	**38,593**	23,649
Over 3 months past due	**11,040**	15,307
	139,099	82,114
	772,992	723,600

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

28 Pledged deposits

The Group

	2014 $'000	2013 $'000
Deposits as security for bank loans and bills payable	**228,165**	6,405
Pledged deposit for utilities	**4,644**	5,078
	232,809	11,483

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(Expressed in Hong Kong dollars unless otherwise indicated)

29 Cash and cash equivalents

	The Group		The Company	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Cash at bank and on hand	**885,028**	2,444,694	**3,213**	97,156
Cash and cash equivalents in the cash flow statement	**885,028**	2,444,694		

30 Bank loans

The bank loans are repayable as follows:

The Group

	2014	2013
	$'000	$'000
Bank loans		
– Within one year or on demand	**3,693,341**	3,415,390
– After one but within two years	**514,077**	637,569
– After two but within five years	**865,077**	1,213,057
– After five years	**–**	127,194
Proceeds from discounted bills		
– Within one year	**125,430**	–
Total loans	**5,197,925**	5,393,210
Less: Loans due within one year classified as current liabilities	**(3,818,771)**	(3,415,390)
Non-current loans	**1,379,154**	1,977,820
Terms		
Unsecured bank loans denominated in RMB (note (i))		
– Variable interest rate at prevailing market rate	**820,803**	1,090,054
– Fixed interest rate at 5.60% to 6.60% (2013: 5.50% to 6.30%)	**2,243,631**	2,187,738
Secured bank loans denominated in RMB (note (i))		
– Variable interest rate at prevailing market rate (note (ii))	**1,944,682**	2,055,510
– Fixed interest rate at 6.18% (2013: 5.60% to 6.00%) (notes (ii) and (iii))	**63,379**	59,908
Proceeds from discounted bills denominated in RMB (note (v))	**125,430**	–
	5,197,925	5,393,210

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

30 Bank loans (continued)

Notes:

(i) Certain of the Group's bank loan facilities were subject to the fulfilment of covenants relating to the financial ratios and capital requirements, as are commonly found in lending arrangements with financial institutions. These financial ratios and capital requirements relate to the 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 2014, the Group could not fulfil covenants imposed by banks on certain loans of an aggregate amount of $202,079,000. The Group fully repaid a loan of $126,759,000 in January 2015 according to scheduled repayment. The Group obtained a one-time waiver letters in respect of loan of $75,320,000 as of March 2015. 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 scheduled repayment. These loans were classified as current liabilities in the consolidated balance sheet.

Further details of the Group's management of liquidity risk are set out in note 38(b).

(ii) At 31 December 2014, the bank loans were secured by certain properties, construction in progress and land use rights with carrying amount of $439,748,000 (2013: $874,206,000), $100,308,000 (2013: $144,627,000) and $506,004,000 (2013: $539,235,000) respectively.

(iii) At 31 December 2014, the bank loan was secured by pledged deposits denominated in RMB and available-for-sale financial asset amounting to $164,786,000 and $101,407,000 respectively (2013: $6,405,000 and $Nil respectively).

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

(v) At 31 December 2014, intragroup bills payable totalling $125,430,000 (2013: $Nil) were secured by pledged deposits amounting to $63,379,000 (2013: $Nil). The corresponding intragroup bills receivable totalling $125,430,000 (2013: $Nil) were discounted with recourse. The proceeds from discounting are stated in the consolidated balance sheet as secured bank loans.

31 Medium term notes

The Group

	2014 $'000	2013 $'000
Medium term notes	**2,911,726**	2,921,312
Less: medium term notes due within one year	**(1,645,097)**	–
Non-current medium term notes	**1,266,629**	2,921,312

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

32 Finance lease liabilities

Finance lease liabilities are payable as follows:

The Group

	2014 Total minimum lease payments $'000	2014 Interest expense relating to future periods $'000	2014 Present value of the minimum lease payments $'000	2013 Total minimum lease payments $'000	2013 Interest expense relating to future periods $'000	2013 Present value of the minimum lease payments $'000
Within one year	**5,937**	**5,388**	**549**	7,325	6,691	634
After one but within two years	**11,519**	**5,362**	**6,157**	13,021	6,661	6,360
After two but within five years	**15,968**	**14,402**	**1,566**	20,125	18,250	1,875
More than five years	**192,460**	**53,276**	**139,184**	246,253	72,725	173,528
	219,947	**73,040**	**146,907**	279,399	97,636	181,763
Total finance lease obligations	**225,884**	**78,428**	**147,456**	286,724	104,327	182,397

33 Trade and other payables

	The Group 2014 $'000	The Group 2013 $'000	The Company 2014 $'000	The Company 2013 $'000
Trade payables	**1,082,209**	931,193	**–**	–
Receipts in advance	**280,486**	249,161	**–**	–
Deposits from customers	**138,082**	107,432	**–**	–
Salary and welfare payables	**94,334**	109,221	**354**	509
Value-added tax payable	**4,393**	4,145	**–**	–
Payables for acquisitions of property, plant and equipment	**663,537**	412,118	**–**	–
Other payables and accruals	**443,290**	431,471	**11,140**	5,554
	2,706,331	2,244,741	**11,494**	6,063

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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

33 Trade and other payables (continued)

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

The Group

	2014 $'000	2013 $'000
Within 30 days	**865,231**	707,780
31 days to 90 days	**116,786**	129,745
91 days to 180 days	**26,350**	30,593
Over 180 days	**73,842**	63,075
	1,082,209	931,193

34 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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

34 Equity-settled share-based payments (continued)

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

	2014		2013	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at 1 January	**$7.66**	**214,434**	$16.89	70,184
Exercised during the year	**–**	**–**	–	–
Granted during the year	**–**	**–**	$5.05	165,100
Lapsed during the year	**$9.74**	**(64,852)**	$18.04	(20,850)
Outstanding at 31 December	**$6.76**	**149,582**	$7.66	214,434
Exercisable at 31 December	**$7.46**	**7,394**	$7.46	7,634

No share options were exercised during the years ended 31 December 2014 and 2013.

2006 Options, 2011 Options, 2013 March Options and 2013 June Options outstanding at 31 December 2014 had exercise price of $7.46, $18.04, $5.142 and $5.002 and the weighted average contractual lives of 1.86 (2013: 2.86), 6.74 (2013: 7.74), 8.23 (2013: 9.23) and 8.45 (2013: 9.45) years respectively.

35 Share capital

(a) Authorised and issued share capital

	2014		2013	
	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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(Expressed in Hong Kong dollars unless otherwise indicated)

35 Share capital (continued)

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

Exercise period	Exercise price	2014 Number '000	2013 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	**1,750**	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	**2,151**	2,291
After the result announcement for the year ending 31 December 2013 to 2 September 2021	$18.04	**–**	20,850
After the result announcement for the year ending 31 December 2014 to 2 September 2021	$18.04	**18,363**	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**	14,900
After the result announcement for the year ended 31 December 2015 to 24 March 2023	$5.142	**14,900**	14,900
After the result announcement for the year ended 31 December 2016 to 24 March 2023	$5.142	**14,900**	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**	26,375
After the result announcement for the year ended 31 December 2015 to 13 June 2023	$5.002	**26,375**	26,375
After the result announcement for the year ended 31 December 2016 to 13 June 2023	$5.002	**26,375**	26,375
		149,582	214,434

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

36 Reserves and dividends

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

(a) The Company

	Share premium (Note 36(b))	Contributed surplus Note 36(g))	Retained earnings/ (accumulated losses)	Total
	$'000	$'000	$'000	$'000
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
At 1 January 2014	**7,400,418**	**297,480**	**11,382**	**7,709,280**
Loss for the year	**–**	**–**	**(14,796)**	**(14,796)**
At 31 December 2014	**7,400,418**	**297,480**	**(3,414)**	**7,694,484**

(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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

36 Reserves and dividends (continued)

(e) PRC statutory reserves (continued)

(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 2014, the aggregate amount of reserves available for distribution to equity holders of the Company was $7,694,484,000 (2013: $7,709,280,000).

Notes to the Consolidated Financial Statements

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36 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 2014 (2013: HK$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 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 2014 was 0.4% (2013: 0.3%).

The Group is subject to externally imposed capital requirement.

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37 Disposal of subsidiaries

In December 2014, the Group disposed of its entire equity interest of a wholly owned subsidiary in chilled and frozen meat segment to Nanjing Runlong Business Investment Management Limited* 南京潤隆商業投資管理有限公司, which is indirectly owned as to 29% by Mr. Zhu, the beneficial shareholder of the Company, and directly owned as to 71% by an independent third party, at a total cash consideration of $682,686,000. A gain on disposal of subsidiary amounting to $354,669,000 was recognised in profit or loss during the year ended 31 December 2014 (see note 7). According to the transfer agreement, 10% of the consideration shall be payable within 15 days and the remaining 90% shall be payable within 6 months from the date of the transfer agreement. The disposal had the following effect on the Group's assets and liabilities.

	$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	30,363
Investment property (note 17)	198,460
Lease prepayments	205,789
Inventories	17
Trade and other receivables	4,037
Cash and cash equivalents	5,463
Trade and other payables	(47,953)
Income tax payable	(212)
Net assets	395,964
Exchange reserve realised on disposal	(67,947)
Gain on disposal of subsidiaries (note 7)	354,669
	682,686
Satisfied by:	
Cash consideration	682,686
Analysis of the net cash inflow in respect of the disposal of subsidiary	
Cash consideration received	68,269
Cash of subsidiary disposed	(5,463)
Net inflow of cash and cash equivalents in respect of disposal of subsidiary	62,806

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 Disposal of subsidiaries (continued)

In 2013, the Group disposed of the entire equity interest in its two wholly owned subsidiaries in chilled and frozen meat segment at a total cash consideration of $606,787,000. A gain on disposal of subsidiaries amounting to $444,225,000 was recognised in profit or loss during the year ended 31 December 2013 (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 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

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

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

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38 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)

38 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, 31% (2013:34%) 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 27.

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.

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38 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 32. 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 2014

	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	**5,197,925**	**5,555,879**	**1,752,074**	**2,278,616**	**584,352**	**940,837**	**–**
Medium term notes	**2,911,726**	**3,078,291**	**23,930**	**1,719,971**	**1,334,390**	**–**	**–**
	8,109,651	**8,634,170**	**1,776,004**	**3,998,587**	**1,918,742**	**940,837**	**–**

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

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 medium term notes are disclosed in notes 30 and 31.

Notes to the Consolidated Financial Statements

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38 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

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.

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 $4,058,000 (2013: $7,322,000). 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 remaining outstanding as at the balance sheet date of such a change in interest rate. The analysis is performed on the same basis for 2013.

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**			
	2014		2013		**2014**		2013	
	Euro	**USD**	Euro	USD	**Euro**	**USD**	Euro	USD
	$'000	**$'000**	$'000	$'000	**$'000**	**$'000**	$'000	$'000
Other current assets	**33,324**	**49,199**	9,025	131,311	**–**	**769**	–	91,946
Other current liabilities	**(4,952)**	**(3,385)**	(492)	(1,712)	**–**	**–**	–	–
	28,372	**45,814**	8,533	129,599	**–**	**769**	–	91,946

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

Notes to the Consolidated Financial Statements

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38 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:

	2014			2013		
	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	**147,456**	**110,821**	**110,821**	182,397	127,737	127,737

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:

	2014	2013
Finance lease liabilities	**5.93%**	5.92%

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)

39 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:

	2014 $'000	2013 $'000
Within 1 year	**1,319**	1,348
After 1 year but within 5 years	**2,285**	3,018
Over 5 years	**1,868**	2,414
	5,472	6,780

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 2014 not provided for in the financial statements were as follows:

	2014 $'000	2013 $'000
Contracted for	**5,857,464**	5,925,879
Authorised but not contracted for	**–**	–
	5,857,464	5,925,879

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

40 Related party transactions

During the years ended 31 December 2014 and 2013, the Group had the following material related party transactions:

(a) Significant related party transactions

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

	2014	2013
	$'000	$'000
Sales of raw materials to related companies (note)	**6,978**	5,037
Sales of raw materials to a joint venture	**–**	12,653
Sales of finished goods to related companies (note)	**10,788**	2,039
Purchases of raw materials from related companies (note)	**427,595**	296,242

Note: Mr. Zhu is the beneficial shareholder of the Company and also has beneficial interest in the related companies. Mr. Zhu is the Honorary Chairman and the senior advisor of the Board of the Company.

(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 32) and operating leases respectively. The rental paid or payable to the Predecessor Entities for the year ended 31 December 2014 amounted to $6,251,000 (2013: $7,012,000).

(iii) Use of property, plant and equipment and land use rights of the Predecessor Entities

Certain Predecessor Entities made available their properties and land use rights with a total carrying value of $171,932,000 (2013: $147,294,000) as at 31 December 2014 to the Group. No rental is paid or payable by any of the group companies.

(b) Amounts due from related parties

	2014	2013
	$'000	$'000
Trade receivables due from related companies (note 40(a)(i))	**6,254**	–
Other receivables due from related companies (note 40(a)(i))	**3,677**	3,346

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 2014 and 2013.

(c) Amounts due to related parties

	2014	2013
	$'000	$'000
Receipts in advance from a joint venture	**–**	22
Trade payables due to related companies (note 40(a)(i))	**47,914**	28,589

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)

41 Subsequent event

On 31 March 2015, the Board of Directors of the Company approved a capital expenditure plan for 2015 amounting to $500,000,000.

42 Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 34 and 38 contain information about the assumptions relating to the determination of fair value of share options granted and financial instruments. Other sources of estimation uncertainties are as follows:

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

The Group reviews its property, plant and equipment, 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 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 estimated useful lives of properties in the PRC was revised in 2014 (note 16).

(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.

(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)

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 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 16, *Property, plant and equipment* and IAS 38, *Intangible assets concerning "Clarification of acceptable methods of depreciation and amortisation"*	1 January 2016
Amendments to IAS 27, *Separate financial statements concerning "Equity method in separate financial statements"*	1 January 2016
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
Annual improvements to IFRSs 2012-2014 Cycle	1 January 2016
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2017

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

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Group's first financial year commencing after 3 March 2014 (i.e. the Group's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

List of Principal Subsidiaries

Appendix 1

The following list contains only the particulars of subsidiaries as at 31 December 2014 which principally affected the results, assets or liabilities of the Group.

Name of company (note (v))	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
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
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
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$140,500,000	–	100	Slaughtering, production and sales of chilled and frozen meat
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
Nanjing Yurun Fresh Food Co. Ltd. (notes (iii) and (iv)) 南京雨潤生鮮食品有限公司	The PRC	RMB50,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat

List of Principal Subsidiaries

Appendix 1 (continued)

Name of company (note (v))	Place of establishment and operation	Registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Shanghai Yurun Food Co., Ltd. (notes (iii) and (iv)) 上海雨潤食品有限公司	The PRC	RMB80,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
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
Suzhou Furun Meat Processing Co., Ltd. (note (i)) 宿州福潤肉類加工有限公司	The PRC	RMB100,000,000	–	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
Wuwei Tianxiang Meat Processing Co., Ltd. (note (iii)) 武威天祥肉類加工有限公司	The PRC	RMB60,000,000	–	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	RMB85,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat
Zhongxiang Panlong Meat Processing Co., Ltd. (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

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) These entities are accounted for as subsidiaries of the Company by virtue of the contractual arrangement.
(v) 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)

	2010 $'000	2011 $'000	2012 $'000	2013 $'000	**2014 $'000**
Assets and liabilities					
Non-current assets	11,501,663	17,129,226	19,030,685	20,581,555	**20,584,777**
Net current assets/(liabilities)	3,860,329	160,169	347,225	688,558	**(1,821,046)**
Total assets less current liabilities	15,361,992	17,289,395	19,377,910	21,270,113	**18,763,731**
Non-current liabilities	(879,494)	(1,117,648)	(3,831,463)	(5,258,799)	**(2,816,419)**
Net assets	14,482,498	16,171,747	15,546,447	16,011,314	**15,947,312**
Share capital	181,116	182,276	182,276	182,276	**182,276**
Reserves	14,255,593	15,926,506	15,306,908	15,767,735	**15,709,968**
Total equity attributable to equity holders of the Company	14,436,709	16,108,782	15,489,184	15,950,011	**15,892,244**
Non-controlling interests	45,789	62,965	57,263	61,303	**55,068**
Total equity	14,482,498	16,171,747	15,546,447	16,011,314	**15,947,312**
Operating results					
Turnover	21,472,747	32,315,193	26,781,632	21,440,039	**19,157,889**
Results from operating activities	2,973,924	1,942,117	(422,223)	262,268	**165,581**
Net finance costs	(47,635)	(36,231)	(144,912)	(154,267)	**(232,716)**
Share of losses of associates	(447)	(299)	(250)	(290)	**–**
Share of loss of a joint venture	–	(114)	(2,185)	(4,218)	**(3,310)**
Profit/(loss) before income tax	2,925,842	1,905,473	(569,570)	103,493	**(70,445)**
Income tax (expense)/credit	(189,113)	(99,532)	(41,537)	(64,059)	**127,386**
Profit/(loss) for the year	2,736,729	1,805,941	(611,107)	39,434	**56,941**
Attributable to:					
Equity holders of the Company	2,728,176	1,799,088	(605,455)	43,592	**56,774**
Non-controlling interests	8,553	6,853	(5,652)	(4,158)	**167**
Profit/(loss) for the year	2,736,729	1,805,941	(611,107)	39,434	**56,941**
Earnings/(loss) per share					
Basic ($)	1.565	0.989	(0.332)	0.024	**0.031**
Diluted ($)	1.551	0.985	(0.332)	0.024	**0.031**