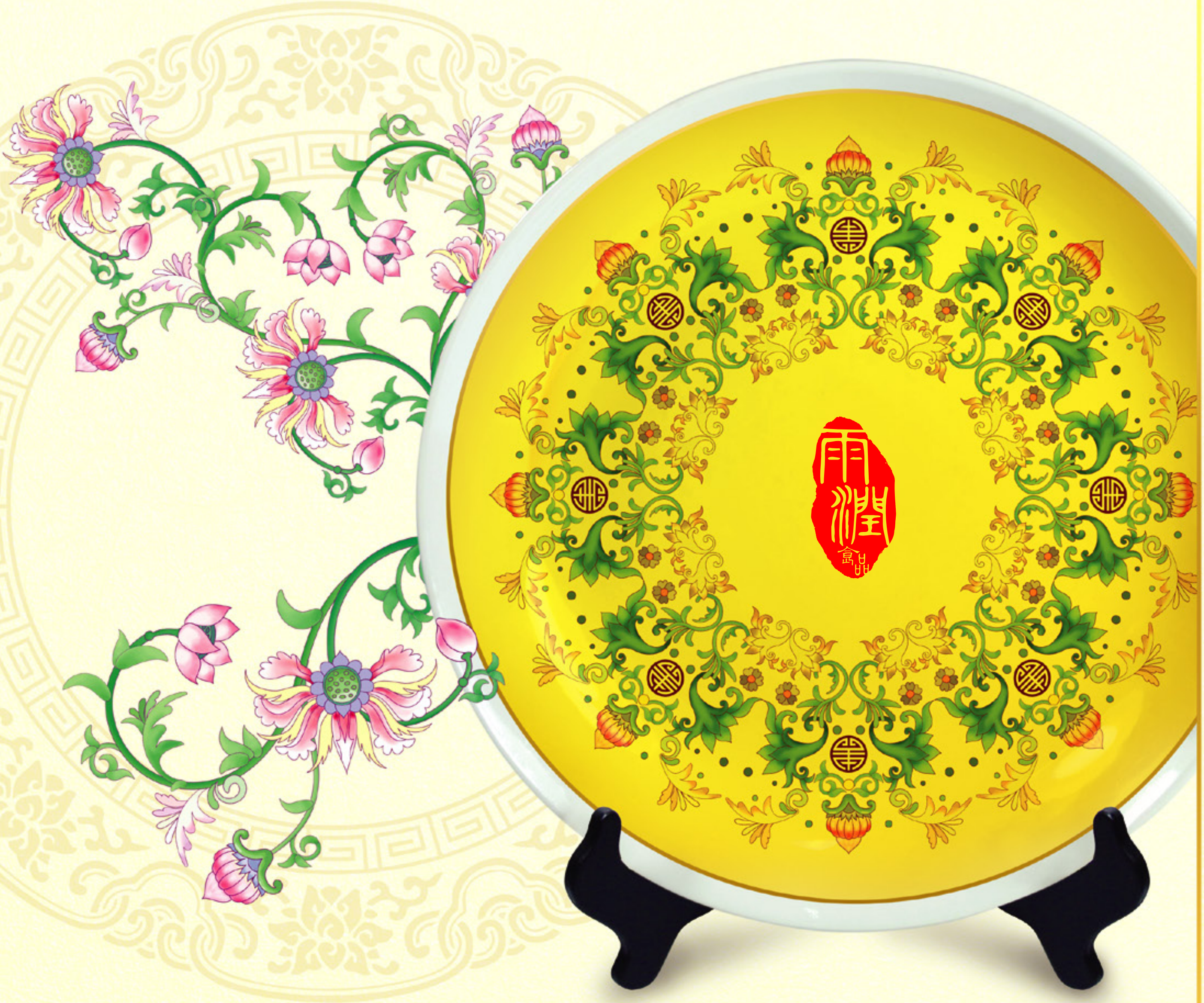
China Yurun Food Group Limited

中國雨潤食品集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1068

ANNUAL REPORT 2015



Perseverance, our key to a prosperous future

Perseverance,
our key to a prosperous 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
Miao Yelian

Audit Committee

Gao Hui *(Chairman)*
Chen Jianguo
Miao Yelian

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
China CITIC Bank Corporation Limited
Industrial and Commercial Bank of China Limited
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.

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 hereby present to you the annual results of the Group for the year ended 31 December 2015 (the "Review Year").

Business Review

During the Review Year, China's economic development entered a new phase. The economy gradually slowed down and transited from the old model to a new model. In addition, under the impact of the State policy on the control of public-funded consumptions, high-end catering market remained sluggish, leading to a significant decrease in the growth of meat consumption per capita. In the meantime, persistent increase in pork price elevated our production costs. In light of the declining demand for meat products and the market downside, the hog slaughtering and meat product processing industries underwent a hostile and challenging year.

During the Review Year, the Chinese government suggested to include food safety strategy in the "13th Five-year Plan". It launched a series of policies to regulate the development of the meat processing industry and further improved the regulatory system on food safety. The revised Food Safety Law of the People's Republic of China became effective in October 2015, which involves supervisions on food additives, online food-trade and health products, etc. Market's increasing attention to food safety has benefited our development in the industry.

Against the ever-changing and complicated macro economy, the Board and the management made best endeavor to actively address to various difficulties, and the operation of the Group was kept at a stable level. The revenue of the Group amounted to HK$20.165 billion and the loss attributable to the equity holders of the Company was approximately HK$2.976 billion.

During the Review Year, the Group strived to improve the capacity utilization by adopting a series of more prudent operational strategies and placing additional focus on its business. By integrating multiple factors into consideration, such as the resources competitiveness, business environment, regional coverage, market supply capability, and synergies between upstream and downstream businesses, the Group adopted a number of operation and management models, focusing on "downsizing asset, alleviating burdens on operation, rejuvenating capacities, expanding scale, developing new businesses, and identifying new channels", so as to improve our corporate operation quality.

The Board believes that, by capitalizing its advantages and experience in the development of the food industry and market competition, the Group will capture the opportunities arising from those challenges. The Group will continue to maximizing its competitiveness in resources, strategies and branding to achieve stable development under a favorable environment benefited from the government's strong efforts in promoting food safety.

Prospect

In 2015, consumers had increasing awareness on food safety and health, and the central government placed higher importance to food safety and continuously optimized policies to improve market environment. Meanwhile, China's financial market witnessed turmoil, Renminbi exchange rate experienced fluctuations and the overall economic growth slowed down, growth of meat consumption also slackened. The Board believes that, under the current economic situation and the prevailing policy and market conditions, the meat product market is facing challenging prospects in the coming year.

Against the backdrop of the industry integration and various challenges, the Board and the management will do their best to improve the Group's cash flow, capacity utilization and efficiency of all aspects and strive to gradually resume business growth, so as to bringing promising opportunities to the Group under such a tough and harsh environment.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my gratitude to our shareholders, customers, banks and business partners for their persistent support and trust. My gratitude also goes to our management team and staff who, with their ample industry experience and unfailing efforts, have contributed to the Group's development against a challenging market environment.

Yu Zhangli
Chairman
Hong Kong, 30 March 2016

雨潤
食品


随食传递爱
Love couple with delicious
全产业链，源头有保障
冷链物流，安全有保障
低温工艺，营养有保障
雨润品质
爱❤保障
TO YOUR APPETITE

Management Discussion and Analysis

Yurun Food officially launched a new brand proposition at "The Crossroads of the World," the New York Times Square, with a new motto " Food Consuming with Love". This brand proposition is intended to convey Yurun food as a carrier to deliver the idea of nutrition, health care and gratitude to consumers. At the same time, it also represents the determination of Yurun Food to adopt stringent quality control from the source to the end-user in details, focus on brand building and eventually assimilate with consumers.

Industry Overview

During the Review Year, China's economic development entered a new phase. Economic growth slowed down. Renminbi ("RMB") exchange rate continued to fall. China's financial market experienced volatility. High-end catering market remained sluggish and the growth of meat consumption per capita significantly slowed down. Meanwhile, hog price increased remarkably after a slight drop at the beginning of the year, thus elevating production costs in the industry. Under the unfavourable economic environment and pork market, operation of the industry players was under certain level of pressure.

During the Review Year, the Chinese government continued to accelerate the reform of food safety regulatory regime. In order to fully implement the central government's decisions and arrangements to enhance food safety and to ensure the quality and safety of meat products, the General Office of the Ministry of Agriculture released the "Circular on Strengthening Management of Livestock & Poultry Slaughtering Industry in 2015" in January 2015, requiring all local governments to continue the review, approval and clearance of qualifications of hog slaughtering at designated locations, to establish systems including slaughtering registration for livestock and poultry before delivery to slaughtering plants (sites), meat product inspection, self-inspection of "Clenbuterol" and harmless disposal of dead body of diseased livestock and poultry, and to strengthen statistics collection and monitoring of livestock and poultry slaughtering. The Board believes that, under the favourable environment created by the government's increasing efforts to promote food safety, the Group will continue to leverage on its core competitiveness in resources, strategy and branding and to capitalize opportunities arising from challenges, so as to further promote the stable development of its businesses.

In view of all the unfavourable factors during the Review Year, the management of Group adopted a more prudent strategy and continued to adhere to the Group's belief of providing quality meat products for consumers against the difficult market environment.

Management Discussion and Analysis

Business Review

During the Review Year, the economic growth slowed down, the market became more competitive, and operating costs including labour and transportation costs continued to rise. In addition, under the tight hog supply, hog prices soared to approaching its peak in five years and the consumption of meat products were low. Confront with all these enormous challenges, the Group made best efforts and adopted prudent approach and feasible measures and methods to reduce the capital expenditure, optimize existing asset structure, strengthen brand image and market positioning and expand distribution channels and network, striving for stable business development.

Product Quality and Research and Development

During the Review Year, under the leadership of the Group's management, Yurun Food adhered to its operation philosophy of "you trust because we care", took the lead in the industry development by technical research and development, and ensured product quality through advanced production process and technology. Yurun Food ranked top in terms of market shares of low temperature meat products ("LTMP") and chilled pork in China, and successively topped the LTMP and chilled pork market in China in terms of market shares for the consecutive seventeenth year and third year respectively in the Annual Conference of the Development of Consumer Markets and the Release of Product Sales Statistics of the PRC Market (中國消費市場發展年會暨商品銷售統計新聞發佈會) held in April 2015. The Group will continue to ensure high product quality, and focus on research and development of products which are well received by the market, so as to maintain its competitive advantages and leading position in the industry.

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 2015, sales of chilled pork of the Group was HK$16.134 billion (2014: HK$15.165 billion), representing an increase of 6.4% over last year, accounting for approximately 78% (2014: 76%) of the total revenue of the Group prior to inter-segment eliminations and approximately 89% (2014: 88%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$2.231 billion (2014: HK$2.500 billion), representing a decrease of 10.7% over last year, accounting for approximately 11% (2014: 13%) of the total revenue of the Group prior to inter-segment eliminations and approximately 91% (2014: 91%) of the total revenue of the downstream processed meat segment.

Management Discussion and Analysis

Production Facilities and Production Capacity

Adhering to strict investment cost control, the Group adjusted its expansion pace according to market changes and business conditions of the Group. The Group will review the functions and positioning of each of its factories and optimise existing resources, for example by consolidating those networks far away from the raw materials markets or consumer markets, to fully capitalize the advantages of its factories with the hope of enhancing the utilization rate in the long run.

With the efforts of the management to adjust the expansion pace, no new capacity was added to both upstream slaughtering segment and downstream processed meat segment during the Review Year. As of 31 December 2015, the upstream slaughtering capacity was 56.35 million heads per year. While the downstream processed meat capacity was approximately 312,000 tons per year.

Financial Review and Key Performance Indicators

The Board and the management assessed the development, performance or position of the business of the Group according to the following key performance indicators.

The Group recorded a revenue of HK$20.165 billion in 2015, representing an increase of 5.3% from HK$19.158 billion of last year. During the Review Year, the Group provided a provision for impairment losses of HK$1.278 billion on non-current assets, in addition of the operating losses and other one-off losses, the loss attributable to equity holders was HK$2.976 billion in 2015 (2014: a profit of HK$57 million). Diluted loss per share was HK$1.633 (2014: diluted earnings per share: HK$0.031).

Impairment losses on non-current assets

In view of the slow economic growth in the Chinese economy and the business operation pressure faced by the Group during the Review Year, the board of directors performed the impairment assessment of relevant non-current assets according to the requirement of "International Accounting Standard 36 – Impairment of Assets".

During the assessment process, many assumptions related to the future including but not limited to sales volume, gross profit margin, expenses ratio and discount rate have to use (especially in the cash flow projection which covering a five-year period). If the relevant assumptions are different, the recoverable amount of the relevant assets will be impacted.

According to the relevant accounting standard, the directors used the cashflow forecast to assess the recoverable amount of each cash-generating unit for those assets continuing to be used and engaged an external professional qualified valuer in the PRC to assess the impairment. The directors and the management consolidated the operating data of the Group with their professional experience and understanding of the industry, the future development of the industry and the macro economy of China and believe that the operations of the Group will be improved gradually in the coming five years, and this also form the basis and assumptions of the cashflow forecast model as at 31 December 2015. In addition, the Board also referred to the suggestion of the relevant standard and used the weighted average cost of capital and added on the specific risk of the entity to calculate the discount rate used for the cashflow forecast. The relevant discount rate used is higher than the rate used by the industry. The Board believes that the calculation of the discount rate is adequately reflecting the underlying risk of the cashflow forecast model.

Based on the results of the assessment, provision of impairment losses for property, plant and equipment and lease prepayments of approximately HK$1.278 billion was recognised by the Group as at 31 December 2015.

The Board reiterates that the Group performed the impairment assessment of relevant non-current assets according to the requirement of "International Accounting Standard 36 – Impairment of Assets". The directors of the Company believe that the assumptions used are reasonable, adequate and prudent. Except the factors related to the macro economy, country and industry, the Group also considered those uncertain specific risks related to the Group itself, to ensure the risk which is difficult to quantify can be reflected in the cashflow forecast model specifically and reasonably. In view of this, the directors of the Company and management believe that the discount rate used and the calculation of cashflow forecast is objective, reasonable and appropriate.

Revenue

Chilled and Frozen Pork

During the Review Year, overall pork consumption in China declined. According to the statistics released by the Ministry of Agriculture, the slaughtering volume of national-scale hog slaughter enterprises at designated locations decreased by approximately 9.5% over 2014. During the Review Year, the slaughtering volume of the Group was approximately 9.43 million heads, representing a decrease of approximately 7.1% over last year. This demonstrates that the Group was able to maintain its market share against the overall decrease in pork consumption.

In 2015, total sales from upstream business prior to inter-segment eliminations increased by 5.7% to HK$18.145 billion (2014: HK$17.163 billion) due to increase in hog price despite the decrease in slaughtering volume, of which, sales of chilled pork increased by 6.4% to HK$16.134 billion (2014: HK$15.165 billion), accounting for approximately 78% (2014: 76%) and approximately 89% (2014: 88%) of the total revenue prior to inter-segment eliminations of the Group and the total revenue of the upstream business of the Group respectively. Sales of frozen pork increased by 0.6% to HK$2.011 billion (2014: HK$1.998 billion), accounting for approximately 11% (2014: 12%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products prior to inter-segment eliminations of the Group was HK$2.444 billion (2014: HK$2.759 billion), representing a decrease of 11.4% over last year.

Specifically, revenue of LTMP was HK$2.231 billion, representing a decrease of 10.7% from HK$2.500 billion of last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 91% (2014: 91%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$213 million (2014: HK$259 million), accounting for approximately 9% (2014: 9%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by 35.0% from HK$987 million in 2014 to HK$642 million during the Review Year. Overall gross profit margin decreased by 1.9 percentage points to 3.2% from 5.1% of last year. During the Review Year, the costs of hog purchases of the Group increased by approximately 15% as driven by increasing hog price across the nation. Other production costs also increased. The Group experienced greater difficulty in transferring cost to consumers and as a result, the gross profit declined.

In respect of the upstream business, gross profit margin of chilled pork and frozen pork were 2.0% and -4.9% respectively (2014: 4.2% and -6.3% respectively). The overall gross profit margin of the upstream segment was 1.2%, representing a decrease of 1.8 percentage points from 3.0% of last year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 17.7%, representing an increase of 0.5 percentage point from 17.2% of last year. Gross profit margin of HTMP was 21.4%, representing an increase of 3.8 percentage points over last year. The overall gross profit margin of the downstream segment was 18.1%, representing an increase of 0.9 percentage point from 17.2% of last year.

Other Net Loss

During the Review Year, other net loss of the Group was HK$180 million (2014: other net income of HK$882 million). Other net loss during the Review Year was mainly attributable to non-recurring losses including the loss on disposal of lease prepayments and property, plant and equipment, loss on disposal and deconsolidation of subsidiaries and impairment losses on receivables arising from disposal of a subsidiary, and significant decrease in government subsidies income.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$2.992 billion, representing an increase of 75.7% from HK$1.703 billion of last year. Such increase was mainly due to the impairment losses on certain non-current assets approximately HK$1.278 billion during the Review Year. Operating expenses excluding impairment losses represented 8.5% of the Group's revenue, representing a decrease of 0.4 percentage point from 8.9% of last year.

Management Discussion and Analysis

Results of operating activities

Operating loss of the Group during the Review Year was HK$2.530 billion (2014: operating profit of HK$166 million).

Finance Costs

During the Review Year, net finance costs of the Group were HK$417 million as compared with HK$233 million of last year. Net finance costs increased mainly because of the decrease of interest expense capitalized into property, plant and equipment under development due to the slow-down of construction in progress, as well as exchange loss due to depreciation of RMB during the Review Year.

Income Tax

Income tax expense for the Review Year was approximately HK$30 million (2014: credit of HK$127 million). In 2014, income tax after deducting the one-off tax credit expense was approximately HK$31 million. Income tax expense for the Review Year was similar to that of 2014.

Loss Attributable to the Equity Holders of the Company

Taking into account all of the above factors, loss attributable to the equity holders of the Company was HK$2.976 billion during the Review Year (2014: profit attributable to the equity holders of the Company HK$57 million).

Financial Resources

In March 2015, Nanjing Yurun Food Co., Ltd ("Nanjing Yurun") a wholly-owned subsidiary of the Group, issued the 366-day short term financing notes of RMB500 million in the PRC with an interest rate of 6.45% per annum (the "Short Term Financing Notes").

As at 31 December 2015, the Group's cash balance together with time deposits and pledged deposits were HK$419 million, approximately 92% (31 December 2014: 98%) of which was denominated in Hong Kong Dollars and RMB, representing a decrease of HK$705 million from HK$1.124 billion as at 31 December 2014.

As at 31 December 2015, the Group had outstanding bank loans of HK$7.320 billion (including the domestic medium term notes ("MTN") and the Short Term Financing Notes issued in the PRC by Nanjing Yurun), representing a decrease of HK$790 million from HK$8.110 billion as at 31 December 2014, of which, HK$4.775 billion, HK$1.192 billion and HK$597 million (31 December 2014: HK$3.819 billion, HK$1.645 billion and HK$Nil) were bank loans, the MTN and the Short Term Financing Notes respectively which are repayable within one year, and the bank loans which are due within one year are expected to be renewed upon maturity. Nanjing Yurun repaid in full all the principal amount of RMB1.3 billion of the first tranche of the medium term notes together with its interests accrued on the due date.

All of the borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2014.

The fixed rate debt ratio of the Group was 60.7% as at 31 December 2015 (31 December 2014: 65.9%).

Net cash outflow of the Group during the Review Year was mainly used for daily operations, payment for the construction payables for those projects already started and repayments of borrowings. The Group has adequate amount of unutilized credit facilities. The bank loans are expected to be renewed upon maturity and the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group decreased significantly by 49.1% to HK$356 million during the Review Year from HK$700 million of last year.

Assets and Liabilities

As at 31 December 2015, the total assets and total liabilities of the Group were HK$22.509 billion (31 December 2014: HK$26.947 billion) and HK$10.178 billion (31 December 2014: HK$11.000 billion) respectively, representing a decrease of HK$4.438 billion and HK$822 million as compared with the total assets and liabilities as at 31 December 2014 respectively.

As at 31 December 2015, the property, plant and equipment of the Group amounted to HK$14.656 billion (31 December 2014: HK$16.541 billion), representing a decrease of HK$1.884 billion as compared with that as at 31 December 2014. The reason of such decrease was mainly, in view of the slowdown in economic growth, transformation of economic structure and the increasingly competitive business environment in China, the Group recognised an impairment losses of approximately HK$1.025 billion in respect of certain assets after the impairment assessment.

Lease prepayments of the Group as at 31 December 2015 amounted to HK$3.059 billion (31 December 2014: HK$3.690 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. Land use rights of seven pieces of land of the Group were disposed during the Review Year and an impairment losses of approximately HK$253 million was recognised, and therefore, the lease prepayments of the Group as at 31 December 2015 decreased by 17.1% as compared with that as at 31 December 2014.

Non-current prepayments and receivables of the Group mainly represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2015, it amounted to HK$215 million (31 December 2014: HK$306 million). These assets have not started to depreciate nor amortise yet.

As at 31 December 2015, the Group had net current liabilities of approximately HK$4.742 billion (31 December 2014: HK$1.821 billion). The directors believe that the current bank loans which are due within one year are expected to be renewed upon maturity. In addition, the Group will implement comprehensive policies to monitor cash flows through cutting costs and capital expenditure, proactively take measures to accelerate the collections of outstanding receivables, seek potential strategic investors and identify buyers for certain non-core assets to improve the cashflow. In view of these, the directors of the Company 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 end of the reporting period.

As at 31 December 2015, equity attributable to equity holders of the Company was HK$12.281 billion in total, representing a decrease of HK$3.611 billion as compared with HK$15.892 billion as at 31 December 2014.

As at 31 December 2015, the gearing ratio (total debt represented by the sum of bank loans, Short Term Financing Notes, the MTN and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 37.8%, representing an increase of 3.6 percentage points as compared with 34.2% as at 31 December 2014. As at 31 December 2015, after excluding cash in bank, time deposits and pledged deposits, the net gearing ratio was 35.7% (31 December 2014: 29.5%).

Charges on Assets

As at 31 December 2015, certain properties and construction in progress of the Group with a carrying amount of HK$1.937 billion (31 December 2014: HK$540 million) and lease prepayments of the Group with a carrying amount of HK$1.148 billion (31 December 2014: HK$506 million) were pledged against certain bank loans with a total amount of HK$2.990 billion (31 December 2014: HK$1.601 billion).

As at 31 December 2015, certain secured bank loans of the Group amounted to HK$3 million (31 December 2014: HK$407 million) which were secured by pledged deposits denominated in RMB amounting to HK$3 million (31 December 2014: HK$165 million). At 31 December 2015, no bank loans were secured by available-for-sale financial asset (31 December 2014: HK$101 million).

As at 31 December 2014, bills payable were secured by RMB denominated pledged deposit of HK$63 million.

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

Having considered the current operation and cash flow of the Group, the Board takes a more prudent approach on capital expenditure plan for 2016. The preliminary capital expenditure plan for 2016 as approved by the Board is currently expected to be approximately RMB200 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.

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 outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fee totalling approximately HK$104 million. Based on the advice of the Group's in-house legal counsel, the directors of the Company estimated that the Group will be liable to pay approximately HK$70 million for the settlement of the litigations.

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 2015, the Group had approximately 16,000 (31 December 2014: approximately 19,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$884 million, accounting for 4.4% of the revenue (2014: HK$911 million, accounting for 4.8% of the revenue) 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 to provide continuing education and training to management and employees so as to improve their skills and knowledge.

Environmental Policies and Performance

As a responsible corporation, the Group is committed to promoting environmental protection and makes best effort to minimize 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 minimize waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

Subsequent Events

Nanjing Yurun was unable to obtain sufficient funding on 17 March 2016 to repay its Short Term Financing Notes. Nanjing Yurun had therefore defaulted on the Short Term Financing Notes on 17 March 2016. As at the date of this report, Nanjing Yurun has already made payment to the designated account for the full repayment of all the principal amount of RMB500 million of the Short Term Financing Notes and its interests.

For details, please refer to the announcements of the Company dated 21 March 2016 and 30 March 2016.


食品工业是道德工业
集团介绍

Biographical Details of Directors

Executive Directors

Mr. Yu Zhangli, aged 48, 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 20 years of experience in the industry.

Mr. Li Shibao, aged 40, 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 Nanjing Tech University) and a bachelor's degree in law from Nanjing University. Mr. Li has 17 years of experience in the meat product industry.

Mr. Ge Yuqi, aged 60, 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 35 years of experience in the industry.

Mr. Sun Tiexin, aged 37, joined the Group in July 2000 and was responsible for the upstream slaughtering business of the Group. He has around 15 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 47, 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 55, 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. Miao Yelian, aged 57, has been an independent non-executive Director of the Company since August 2015. He is a professor and supervisor to doctoral students of the College of Food Science and Light Industry of Nanjing Tech University, and the vice director of the Institute of Bioresources Engineering of Nanjing Tech University. Mr. Miao is an academic in food engineering with over 30 years of working experience with different universities. Mr. Miao obtained a bachelor's degree of engineering in agricultural machinery design and manufacturing from the Zhenjiang Institute of Agricultural Machinery (currently known as Jiangsu University) in 1982, a master's degree in agriculture from Kagoshima University in Japan in 1987 and a doctorate in agriculture from the University of Tsukuba in Japan in 1990.

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") presents its 2015 annual report, together with the report of the Directors and the financial statements of the Group for the year ended 31 December 2015.

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 result for the year ended 31 December 2015 and the state of affairs of the Group as at that date are set out in the financial statements on pages 44 to 115.

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 2015 are set out in note 15 to the financial statements.

Business Review

Review of business and performance

A business review of the Group, a discussion and analysis of the Group's performance and material factors underlying its results and financial position during the year and the outlook of the Group are set out in the Chairman's Statement and the Management Discussion and Analysis from pages 4 to 5 and pages 8 to 14 respectively of this Annual Report. The discussion forms a part of this Report of the Directors.

Principal risks and uncertainties

The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the applicable Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and are in addition to the matters referred to in the Chairman's Statement and the Management Discussion and Analysis. Save as stated below, there may be other risks and uncertainties which are unknown to the Group or which may not be material now but is likely to become material in the future.

Material risks relating to our business

Economic climate and individual market performance

The impact of economic conditions on consumer confidence and consumption pattern would affect the sales and results of the Group. The impact of economic growth or decline in our geographical markets on consumers' spending on meat products would also affect our business. The Group continues to develop and enhance its presence in different geographical markets to reduce reliance on certain specific markets.

Report of the Directors

If there is any interruption to the supply of hogs, raw pork or other major raw materials or decline in their quantity or quality, our business may be materially and adversely affected.

Hogs and raw pork are the respective principal raw materials used in our production in upstream and downstream segments. We purchase the hogs and part of the raw pork we use from certain third party suppliers. Our third party suppliers may not be able to consistently supply us adequate quantity of hogs and raw pork to satisfy our present and future production needs. Pork supply is subject to the output of pig farms, which may be affected by outbreaks of diseases or epidemics. Any interruption of supply of or decline in quantity or quality of hogs or raw pork could materially disrupt our production and adversely affect our business. In addition to hogs and raw pork, we also purchase from third party suppliers the additives and packaging materials for our production. Any interruption to the supply of additives or packaging material or decline in their quantity or quality may also disrupt our production and adversely affect our business.

We are sensitive to the impact of further increase in raw materials price (particularly hogs and raw pork) and other operating costs. We may not be able to entirely offset the rising costs by increasing our product price, particularly our processed meat products.

We purchase agricultural products, such as hogs and raw pork, for production use. Price of such raw materials is subject to fluctuations, attributable to a number of factors, such as the price of animal feed, diseases and infections. From 2010 to the end of 2015, the hog price fluctuated between RMB9.84 to RMB18.40 per kilogram. If the costs of raw materials or other costs of production and distribution of our products further increase and we are unable to entirely offset the cost increase by raising our product price, our profit margins and financial condition may be adversely affected.

If the chilled and frozen pork market in China does not grow as we expect or we are unable to predict the changes in consumer preferences for processed meat products, demand for our products may decline.

If the chilled and frozen pork market in China does not grow as we expect, our business may be harmed, our growth strategy may need adjustment and our results of operation may be adversely affected. Our continued success in the processed meat products market depends on a great extent our ability to correctly predict, and develop products to satisfy consumers' ever-changing tastes, diet and preferences. If we are not able to predict or identify new consumption trends and develop new products accordingly, demand for our products may decline and our operating results may be adversely affected. In addition, we may incur significant costs in developing and marketing new products or expanding our existing product lines in response to the consumer preference or demand we perceive. Such development or marketing, even launched, may not result in the expected market acceptance, sales volume or profitability.

We require various licences and permits to operate our business, and the loss of or failure to renew any or all of these licences and permits may materially and adversely affect our business.

In accordance with the relevant laws and regulations of the People's Republic of China (the "PRC") currently in force, we are required to obtain various licences and permits in order to operate our business, including, without limitation to, a slaughtering permit in respect of each of our chilled and frozen pork production facilities or a permit for production of industrial products in respect of each of our processed meat production facilities. We are required to comply with the applicable hygiene and food safety standards in relation to our production processes. Our premises are subject to regular inspections by the regulatory authorities for compliance with the applicable laws and regulations. In the event of failure to pass these inspections or the loss of or failure to renew our licences and permits, the regulatory authorities may require us to suspend or close some or all of our production or distribution operations, which may disrupt our operations and adversely affect our business.

Financial risks

In the course of our business activities, the Group is exposed to various financial risks, including market risks, liquidity risks and credit risks. The monetary environment and interest rates cycles may pose significant risks to the Group's financial condition, operating results and businesses. Details of the financial risk management of the Group are set out in note 38 to the financial statements.

Risks relating to our industry

The hog slaughtering and processed meat industries in China are subject to extensive governmental regulations, which are still being modified.

The hog slaughtering and processed meat industries in China are strictly regulated by a number of governmental authorities, including primarily the Ministry of Agriculture, the Ministry of Commerce, the Ministry of Health, the General Administration of Quality Supervision, Inspection and Quarantine and the State Environmental Protection Administration. These regulatory authorities have extensive discretion and authority to regulate the hog slaughtering and processed meat industries in China in many aspects, including, without limitation to, setting hygiene standards for production and quality standards for processed meat products. If the Group fails to comply with the standards set by the relevant regulatory authorities or such standards result in increase in our production costs and hence our prices which render our products less competitive, our ability to sell products in China may be limited.

The outbreak of animal diseases or other epidemics may adversely affect our operations.

The outbreak of serious animal diseases, such as foot-and-mouth disease and blue ear disease, or other epidemics in China affecting animals or humans might result in material disruptions to the operations of our customers or suppliers, sluggish performance of supermarket or food retail industry or slowdown in economic growth in China and surrounding regions, and any of which could have a material adverse effect on our operations and revenue. However, there is no assurance that our production facilities or products will not be affected by the outbreak of animal diseases or other epidemics, or that the market demand for pork products in the PRC will not decline due to the concerns about the disease. In either case, our business, results of operations and financial condition may be adversely and materially affected.

Food safety risks

Sale of food products for human consumption involves risks of causing harm to consumers. Such harms may result from disruption by unauthorized third parties or product contamination or spoilage, including the presence of external contaminants, chemical or other residue substances in various stages of procurement and production. Although our products are subject to governmental inspections as well as compliance with the relevant laws and regulations, there is no assurance that the raw materials or products of the Group will not be contaminated during the production, transportation, distribution and sales process for reasons unknown to us or beyond our control. If our products are contaminated or spoiled or otherwise damaged, we may need to recall the products and possibly subject to products liability claims, negative media coverage or government investigation. Any of such situations may harm our reputation, corporate and brand image and subsequently have a material and adverse effect on our business operations.

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. The industry in which the Group operates is not classified as heavily polluting industries. However, some emissions such as discharged slag, waste water and off gas are generated during the hogs slaughtering process. The Group has adopted the concept of system-wide food safety and environmental design in providing infrastructures for its factories. Our production base had obtained the approval of the local government prior to its operation and received the approval on the environmental impact report. In addition to the ISO14001 Environmental Management System ("EMS"), the Group implements a mechanism to review the cleaner production practices, adopts recycle practice and takes a number of environmental protection measures, such as: (1) construction of underground sewage stations to process waste water discharged from factories, introduction of new facilities to reduce odour from sewage treatment works, improvements in environment surrounding the sewage station, introduction of advanced facilities to tackle the odour and water quality at the sewage stations; (2) the Group has implemented effective processing and preventive measures to process and discharge the discharged slag, waste water and off gas generated in the production process strictly in accordance with the environmental protection requirements, and its facilities will be refurbished and upgraded annually to minimize the environmental impact to the surrounding; (3) no major irregularities of discharge limits of sewage, smoke and dusts had been noted in the past three years according to the real time monitoring system of the environmental bureau of the place where the Group is located and no major irregularities of waste treatment was found under the periodic audit of EMS.

Report of the Directors

Compliance with laws and regulations that have a significant impact on the Group

Compliance procedures of the Group are in place to ensure compliance with the applicable laws, rules and regulations which in particular, have significant impact on the Group. Our Audit Committee is delegated by the Board to review and monitor the Group's compliance with the policies and practices on corporate governance and regulatory requirements and such policies are regularly reviewed. The relevant employees and the operation units are kept informed from time to time of any change to the applicable laws, rules and regulations.

Relationship with employees

Working environment

As at 31 December 2015, the Group had approximately 16,000 employees in the mainland China and Hong Kong in total.

The Group provides its employees in the mainland China with nice workplace in a greening factory, reasonable remuneration, sound incentive mechanism, broad career advancement and other benefits such as accommodation, meals allowances, insurance, housing fund and retirement benefit. We are committed to improving working environment for our staff.

We always care our staff who have hardship in living. The Group has set up a mutual-help charity fund to help staff who has difficulties in living. We also extend our care to former staff who have retired and those families who are in difficulties on festive occasions.

Training and career development

The Group values the importance of staff training. We organise in-house management training courses as well as training programmes covering various aspects such as personnel, finance, administration, quality control, marketing and project management. We allocated resources for providing training to staff of managerial and professional grades to enhance their knowledge.

Health and safety

The Group monitors the production process in strict compliance with the relevant laws and regulations. We set up safety management team and formulated production guidelines and annual objectives. We formed an integrated and comprehensive accident prevention system. We formulated contingency plans and predetermined procedures for emergency according to the incident nature and conduct regular emergency drill and exercise every year to ensure our employees' full understanding of these plans and procedures.

In addition, the Group has included safety management as one of the annual objectives of all levels of the management to enhance their awareness of safety management and ensure the effective implementation of the system.

Relationship with customers

We highly value our customers as important partners for the Group's sustainability and development. We require our staff to be committed to both the principle and practice of sincere service.

Meanwhile, in order to monitor business operation and to achieve business integrity and mutual benefits, we established an incentive mechanism for distributors and signed agreements with them to regulate our business and to ensure that the interests of customers and the Group are protected by law.

Relationship with suppliers

As the origin of the supply chain, suppliers are essential to an effective supply chain and to the sustainability and growth of enterprises. The Group established policies to monitor the suppliers and their supply of raw materials to ensure that the interests of the Group and suppliers are not prejudiced and the quality of the raw materials can comply with the Group's standard.

Forward-looking Statements

These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, that include wordings like "potential", "estimated", "expects", "intends", "plans", "believes", "estimates", and similar expressions or variations on such expressions may be considered "forward-looking statements".

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only at the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events.

Subsequent Events

For details of the important events affecting the Group that have occurred since the end of the financial year, please refer to note 42 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 48 of this annual report.

Financial Summary

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

Distributable Reserves

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to approximately HK$7,741,427,000.

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 sales and total purchases, respectively.

Report of the Directors

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*
Ge Yuqi	
Sun Tiexin	

Independent non-executive Directors

Gao Hui A/R/N	
Chen Jianguo A/R/N	
Li Qing A	*(resigned on 13 August 2015)*
Miao Yelian A	*(appointed on 13 August 2015)*

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

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, Li Shibao and Gao Hui 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, Miao Yelian will also retire from office and being eligible, offer himself for re-election at the AGM.

The Company has received from each of 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 Listing Rules and the Company considered them to be independent.

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 16 of this annual report. The senior management of the Group is also executive Directors of the Company.

Directors' Service Contracts

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.

Details of the remuneration payable to the Directors for the year ended 31 December 2015 are set out in note 11 to the financial statements.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest (direct or indirect), subsisted at the end of the financial year or at any time during the year ended 31 December 2015.

Permitted Indemnity Provision

The Company's Bye-laws provide that every Director shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their offices.

The Company has taken out and maintained directors' liability insurance during the year which provides appropriate cover for the Directors.

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 was 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 2015, 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 (Note)	Total	Approximate percentage of interest
Yu Zhangli	Beneficial owner	89,000	5,000,000	5,089,000	0.28%
Li Shibao	Beneficial owner	89,000	3,750,000	3,839,000	0.21%
Ge Yuqi	Beneficial owner	–	2,500,000	2,500,000	0.14%
Sun Tiexin	Beneficial owner	–	2,500,000	2,500,000	0.14%

Note:

The interests in underlying shares represent the interests in the share options granted on 25 March 2013 pursuant to the Company's share option scheme, details of which are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 31 December 2015, 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 Schemes

The Company unconditionally adopted a share option scheme (the "Old Scheme") on 3 October 2005. The Old Scheme was in force for ten years and should have expired on 2 October 2015. In order to enable the continuity of the Old Scheme, the Company unconditionally adopted a new share option scheme (the "New Share Option Scheme") on 7 August 2015 and concurrently, early terminated the Old Scheme pursuant to the ordinary resolution passed at the annual general meeting of the Company held on 24 June 2015. The share options granted under the Old Scheme prior to its termination, if not yet exercised, would continue to be valid and exercisable in accordance with the rules of the Old Scheme.

(a) Purpose of the Share Option Schemes

The purpose of both share option schemes is to enable the Board, at its discretion, to grant options to any Qualified Participant (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 Qualified Participants include: (i) any executive director, or employee (whether full time or part time) of the Company, any subsidiary of the Company or any entity in which the Company or any subsidiary of the Company holds any equity interest ("Invested Entity"); (ii) any non-executive director (including independent non-executive director) of the Company, any subsidiary of the Company or any Invested Entity; (iii) any supplier of goods or services to the Company, any subsidiary of the Company or any Invested Entity; (iv) any customer of the Company, any subsidiary of the Company or any Invested Entity; and (v) any person or entity that provides research, development or technological support (in the case of the Old Scheme) and consultancy or advisory services (in the case of the New Share Option Scheme) to the Company, any subsidiary of the Company or any Invested Entity (collectively, the "Qualified Participants").

(c) Maximum number of shares available for issue

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of shares representing 10% of the total number of shares in issue as at the date of passing the relevant resolution for approving the adoption of the New Share Option Scheme, being 182,275,565 shares. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the total number of shares in issue of the Company from time to time.

As at the date of this annual report, the total number of shares available for issue under the New Share Option Scheme is 182,275,565 shares, which represents 10% of the total issued shares of the Company.

(d) Maximum entitlement of each Qualified Participant

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 Participant 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 Old Scheme or the New Share Option Scheme shall be such period of time notified or 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).

(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. Under the New Share Option Scheme, an offer shall remain open for acceptance by a Qualified Participant for a period of 30 business days from the date on which the offer was made.

(g) Basic 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 quotations sheet 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 quotations 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 New Share Option Scheme

Subject to earlier termination by the Company at a general meeting or by the Board, the New Share Option Scheme shall be valid and effective for a period of ten years from 7 August 2015.

No share options were granted under the New Share Option Scheme during the year.

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

Name or category of participant	Number of shares which may be issued pursuant to the share options					Exercise price per share[4] HK$	Date of grant (DD.MM.YYYY)	Option period [1] & [2] (DD.MM.YYYY)
	As at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year[2]	As at 31 December 2015			
Directors								
Yu Zhangli	1,962,500	–	–	(1,962,500)	–	18.04	03.09.2011	03.09.2011 – 02.09.2021
	7,500,000	–	–	(2,500,000)	5,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	9,462,500	–	–	(4,462,500)	5,000,000			
Li Shibao	125,000	–	–	(125,000)	–	18.04	03.09.2011	03.09.2011 – 02.09.2021
	5,625,000	–	–	(1,875,000)	3,750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	5,750,000	–	–	(2,000,000)	3,750,000			
Ge Yuqi	2,000,000	–	–	(2,000,000)	–	18.04	03.09.2011	03.09.2011 – 02.09.2021
	3,750,000	–	–	(1,250,000)	2,500,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	5,750,000	–	–	(3,250,000)	2,500,000			
Sun Tiexin	100,000	–	–	(100,000)	–	18.04	03.09.2011	03.09.2011 – 02.09.2021
	3,750,000	–	–	(1,250,000)	2,500,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	3,850,000	–	–	(1,350,000)	2,500,000			
Subtotal	24,812,500[3]	–	–	(11,062,500)	13,750,000[3]			
Other employees (including ex-employees)								
In aggregate	7,394,000	–	–	(163,000)	7,231,000	7.46	10.11.2006	10.11.2006 – 09.11.2016
	14,175,000	–	–	(14,175,000)	–	18.04	03.09.2011	03.09.2011 – 02.09.2021
	24,075,000	–	–	(10,525,000)	13,550,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	79,125,000	–	–	(44,850,000)	34,275,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	124,769,000	–	–	(69,713,000)	55,056,000			
Total	149,581,500	–	–	(80,775,500)	68,806,000			

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 fourth tranche (25%) of the share options granted on 3 September 2011 and the second 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 2014, 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) 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.

(5) No share options were cancelled under the Old Scheme during the year.

Information on the accounting policy for share options granted is set out in note 3(m)(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 2015 are set out in the paragraph headed "Share Option Scheme" on pages 24 to 26 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 2015, 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 1)	25.82%
Zhu Yicai	Long position	470,699,900 (Note 1)	25.82%
Wu Xueqin	Long position	470,699,900 (Note 1)	25.82%
Kopernik Global Investors, LLC	Long position	94,259,976 (Note 2)	5.17%

Notes:

(1) These shares represent the shares of the Company held by Willie Holdings Limited ("Willie Holdings") as beneficial owner. Willie Holdings is owned as to 93.41% by Zhu Yicai ("Mr. Zhu"), the former executive Director and Chairman of the Company, and as to 6.59% by Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. Mr. Zhu is deemed to be interested in the shares of the Company held by Willie Holdings as well as the entire issued share capital of Willie Holdings by virtue of Part XV of the SFO. Ms. Wu, being the spouse of Mr. Zhu, is also deemed to be interested in these shares by virtue of Part XV of the SFO.

(2) So far as is known to the Directors, these shares are held by Kopernik Global Investors, LLC in the capacity of investment manager.

Save as disclosed above, as at 31 December 2015, 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 annual caps of transaction amounts for the financial years ended 31 December 2014 and 2015 were RMB156 million and RMB203 million respectively and the annual cap for the financial year ending 31 December 2016 is RMB243 million. The aggregate purchase amount pursuant to the Poultry Purchase Agreement during the year amounted to approximately RMB110,356,000 (equivalent to approximately HK$137,088,000).

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

Report of the Directors

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 agrees to supply the pig blood products to the Relevant Entities and the Relevant Entities agrees 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 caps of transaction amounts for the financial years ended 31 December 2014 and 2015 were RMB15.4 million and RMB20.0 million respectively and the annual cap for the financial year ending 31 December 2016 is RMB26.0 million. The aggregate purchase amount pursuant to the Pig Blood Products Agreement during the year amounted to approximately RMB12,416,000 (equivalent to approximately HK$15,424,000).

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.

Purchase of hogs from the Selling Entities (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 Framework Purchase Agreement has a term of three years, commencing on 1 January 2013 and ending on 31 December 2015. Details of the Framework Purchase Agreement have been disclosed in the Company's announcement dated 15 November 2012.

The annual caps of transaction amounts for the financial years ended 31 December 2013, 2014 and 2015 were RMB3,670 million, RMB5,423 million and RMB8,613 million respectively. The aggregate purchase amount pursuant to the Framework Purchase Agreement during the year amounted to approximately RMB111,539,000 (equivalent to approximately HK$138,558,000).

Report of the Directors

The Framework Purchase Agreement expired on 31 December 2015. Prior to its expiration, on 17 December 2015, the Company entered into the Hogs Purchase Framework Agreements with Mr. Zhu's Entities (namely 江蘇雨潤肉類產業集團有限公司 (Jiangsu Yurun Food Group Company Limited*) and 南京雨潤養殖產業集團有限公司 (Nanjing Yurun Breeding Group Company Limited*), entities incorporated in the PRC and owned and/or controlled by Mr. Zhu and his associates, and principally engaged in the business of breeding and/or sales of hogs) and Ms. Wu's Entity (namely, Success Legend Development Ltd, a company incorporated in Hong Kong and owned and controlled by Ms. Wu, and principally engaged in the business of breeding and/or sales of hogs) (collectively, the "Selling Entities") respectively (collectively, the "Hogs Purchase Framework Agreements") for the continuous sourcing of hogs from the Selling Entities and/or their subsidiaries for production use upon expiry of the Framework Purchase Agreement on 31 December 2015. Pursuant to the Hogs Purchase Framework Agreements, the price for the sourcing of hogs shall be negotiated and determined by the contracting parties 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 Hogs Purchase Framework Agreements have a term of three years, commencing on 1 January 2016 and ending on 31 December 2018. Details of the Hogs Purchase Framework Agreements were disclosed in the Company's announcement dated 17 December 2015. The annual caps for the financial years ending 31 December 2016, 2017 and 2018 are RMB100 million, RMB105 million and RMB110 million respectively.

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 Selling Entities, being entities owned and/or controlled by Mr. Zhu and his associates, are associates of Mr. Zhu and 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 Hogs Purchase Framework Agreements exceed 0.1% but are less than 5%, the transactions contemplated under the Hogs Purchase Framework Agreements are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The transactions detailed under the headings "Purchase of raw poultry meat from the Relevant Poultry Entities", "Sales of pig blood products to the Relevant Entities" and "Purchase of hogs from the Selling 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 the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified report containing the auditors' findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 27 to 30 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' report has been provided by the Company to the Hong Kong Stock Exchange, in which the auditors of the Company have advised the nothing has come to their attention that causes them to believe that:

* For identification purposes only

1. the disclosed continuing connected transactions have not been approved by the Board of the Company;

2. for transactions involving the provision of goods or services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. the disclosed continuing connected transactions have exceeded the annual cap.

Details of the significant related party transactions conducted in the normal course of business are set out in note 40 to the financial statements. None of these related party transactions constitutes a connected transaction as defined and 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 is no other transaction of the Company which requires disclosure in this annual report in accordance with the Listing Rules.

The Group has had 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 assumes 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 because the procedure for approving the establishment of retail or wholesale enterprises by foreign investors under the PRC law was stringent and time consuming. The Company therefore entered into contract with Shanghai Yurun to make use of the well-established distribution network of Shanghai Yurun. Shanghai Yurun is wholly-owned by Mr. Zhu, and the directors and senior management of Shanghai Yurun are appointed by the Group. The Group has the right to direct the shareholder of Shanghai Yurun to approve any resolution to facilitate the distribution activities of Shanghai Yurun, and in order to control its operation and reduce the risks of the Group. The Group has been distributing its chilled and frozen meat through Shanghai Yurun since 2003. The distribution fee for 2015 was 0.8% of the revenue or RMB3,000,000 per year, whichever is lower. This is one of the Group's de minimis transactions.

Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company 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 paragraph A.6.7 of the CG Code as Li Qing, a former independent non-executive Director, was absent from the annual general meeting of the Company held on 24 June 2015 for other engagements.

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" on pages 32 to 40 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 complied with the required standards set out in the Model Code throughout the year.

Auditors

KPMG is appointed as auditors of the Company. KPMG will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the AGM.

By Order of the Board

Yu Zhangli
Chairman
Hong Kong, 30 March 2016

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 2015 to 31 December 2015 (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 paragraph A.6.7 of the CG Code as an independent non-executive Director was absent from the annual general meeting of the Company held on 24 June 2015 as he had other engagement. Please refer to page 33 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 Miao Yelian as independent non-executive Directors. The biographical details of the Board members are set out on page 16 of this annual report. With the exception of Miao Yelian who was appointed as an independent non-executive Director with effect from 13 August 2015, all the Directors as at the date of this annual report served throughout the Review Year. During the Review Year, Li Qing resigned as an independent non-executive Director with effect from 13 August 2015.

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 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.

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 Miao Yelian, 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. The Board also considered Li Qing to be independent during his term of office.

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. All Directors shall be subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

Each independent non-executive Director is appointed for a fixed term of three years according to the respective letter of appointment.

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	3/3	2/2	1/1
Li Shibao	4/4	N/A	N/A	N/A	0/1
Ge Yuqi	4/4	N/A	N/A	N/A	0/1
Sun Tiexin	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Gao Hui	4/4	5/5	3/3	2/2	1/1
Chen Jianguo	4/4	5/5	3/3	2/2	1/1
Miao Yelian *(appointed on 13 August 2015)*	1/1+	–+	N/A	N/A	–+
Li Qing *(resigned on 13 August 2015)*	3/3+	5/5	N/A	N/A	0/1

* *Ad hoc meetings are not included*

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

Corporate Governance Report

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, Miao Yelian 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.

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 has also delegated the risk management and internal control duties to the Audit Committee and the Audit Committee is responsible for assisting the Board to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Group's strategic objectives, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and assisting the Board to oversee management in the design, implementation and monitoring of the risk management and internal control systems as set out in the CG Code. The terms of reference of the Audit Committee has been amended and became effective on 17 December 2015 to reflect the above changes.

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* Miao Yelian* *(appointed on 13 August 2015)* Li Qing* *(resigned on 13 August 2015)*	Gao Hui* *(Chairman)* Yu Zhangli+ Chen Jianguo*	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, risk management, 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 risk management and internal control systems 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*

Corporate Governance Report

	Audit Committee	Remuneration Committee	Nomination Committee
Work performed during the Review Year	• Reviewed the Group's annual and interim financial statements before submission to the Board for approval • Reviewed the external auditors' letter to the management and ensured the management provided timely responses to the issues raised therein • Reviewed the independence of the external auditors in connection with their provision of non-audit services to the Group and approved their remuneration and terms of engagement • Made recommendation on the re-appointment of the external auditors • Reviewed the effectiveness of the Group's financial management, internal control and risk management systems, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget • Reviewed the continuing connected transactions of the Group • Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report • Reviewed and monitored the training and continuous professional development of the Directors and senior management • Reviewed and approved the changes made to its terms of reference to reflect the amendments made to the CG Code on risk management and internal control	• 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 Director	• Reviewed and recommended the structure, size and composition of the Board • Reviewed the performance of the independent 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
2015 Annual audit	7,482
Non-audit services*	1,911
Total	9,393

** Non-audit services mainly consist of taxation services and work performed on interim report.*

Internal Controls and Risk Management

The Board acknowledges that it is responsible for maintaining a sound risk management and internal control systems 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 risk management and internal control systems. The Audit Committee, with the assistance of the Group's Internal Audit Department, reviews the effectiveness of the Group's risk management and internal control systems, 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 risk management and internal controls of the Group, evaluates the effectiveness of the Group's risk management and internal control systems, 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.

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.

There are multiple uncertainties relating to going concern of the Group, the Directors after review of the related matters and consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis. Details of the material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern are set out in note 2(b) to the financial statements.

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 41 to 43 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 one-on-one and group meetings with analysts and senior representatives from renowned fund management companies, participated in post-results roadshows held in Hong Kong 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.

Corporate Governance Report

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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Independent Auditor's Report

KPMG

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

We have audited the consolidated financial statements of China Yurun Food Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 44 to 115, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. However, due to the potential interaction of the uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements as described in the "basis for disclaimer of opinion" paragraphs below, it is not possible for us to form an opinion on the consolidated financial statements.

Basis for disclaimer of opinion

Multiple uncertainties relating to 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"). Up to the date of this report, the Company has not received any update on the circumstances of this Incident or had any contact with Mr. Zhu.

Independent Auditor's Report

Basis for disclaimer of opinion (continued)

Multiple uncertainties relating to going concern (continued)

The directors of the Company are of the view that the Incident has not caused any material adverse impact on the operations of the Group. However, as described in note 2(b) to the consolidated financial statements, there are a number of other matters which the directors have identified which indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. These include the facts that the Group incurred a net loss of HK$2,977,202,000 and operating cash outflow of HK$186,922,000 for the year ended 31 December 2015 and as at 31 December 2015, the Group had net current liabilities of HK$4,741,774,000. Its total borrowings and finance lease liabilities amounted to HK$7,457,976,000, out of which HK$6,564,164,000 is due within 12 months of that date. In addition, as disclosed in note 2(b), as at 31 December 2015 the Group could not fulfil certain bank covenants and certain subsidiaries of the Group are also party to various litigations. Furthermore, the settlement of the short term financing notes of HK$596,801,000 due on 17 March 2016 has been delayed (note 42).

The directors have prepared the consolidated financial statements on a going concern basis, having taken into account the measures they have taken and plan to take to mitigate the liquidity pressure on the Group and to improve the Group's financial position, as disclosed in note 2(b) to the consolidated financial statements.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying amounts of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

Disagreement arising from non-compliance with International Accounting Standard 36 (IAS 36), "Impairment of assets" issued by the International Accounting Standard Board

As disclosed in note 15 to the consolidated financial statements, an impairment assessment was carried out by management of the Company on the Group's property, plant and equipment, lease prepayments, goodwill, intangible assets and non-current prepayments. For assets which management considers are likely to be recoverable through continuing use, the Group assessed the recoverable amount of each cash-generating unit (CGU) based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in note 15. As a result of the assessment, management has assessed that the recoverable amounts of each CGU based on the estimated value-in-use calculation were higher than their carrying amounts as at 31 December 2015. Accordingly, no provision for impairment loss has been recognised for assets which management considers are likely to be recoverable through continuing use.

The forecasts adopted by management for the next five years assume that the average annual growth rate and the average EBITDA margin are broadly similar to that adopted last year and the discount rate applied decreased as compared to that last year. However, over the past few years, the Group's business has been adversely affected by the challenging market conditions and impacts arising from the Incident and the Group has failed to achieve its cash flow projection consecutively.

In our opinion, the assumptions (including EBITDA margin and growth rate) are overly optimistic compared to the Group's actual performance over the recent years and/or the discount rates are low as they do not adequately take into account the risk that the Group may fail to achieve such projections. Therefore in our opinion, this impairment assessment is not in accordance with IAS 36. Given the sensitivity of the calculation to these assumptions (as disclosed in note 15), in our opinion the use of these assumptions and discount rate has resulted in the recoverable amount of these assets being materially overstated.

Independent Auditor's Report

Disagreement arising from non-compliance with International Accounting Standard 36 (IAS 36), "Impairment of assets" issued by the International Accounting Standard Board (continued)

Any deficit of recoverable amount compared to carrying amount represents an impairment loss in accordance with IAS 36. However, in the absence of a discounted cash flow projection using an overall balanced set of assumptions, we are unable to quantify the amount of any additional impairment losses that should be recognised on these assets for the year ended 31 December 2015.

Recognition of any additional impairment losses against the Group's property, plant and equipment, lease prepayments, goodwill, intangible assets and non-current prepayments would decrease the net assets of the Group as at 31 December 2015 and would increase the Group's loss for the year and the related notes disclosures in the consolidated financial statements.

In addition, as the property, plant and equipment, lease prepayments, goodwill, intangible assets and non-current prepayments as stated above were held by various subsidiaries of the Company, any adjustment on the carrying amounts of these assets found to be necessary would also affect the carrying amount of the Company's interests in subsidiaries which amounted to HK$7,922,267,000 as at 31 December 2015 as disclosed in note 41 and the amount of loss for the year then ended as disclosed in the Company's statement of changes in equity disclosed in note 36.

Even had there been no multiple material uncertainties relating to going concern as described in the "basis for disclaimer of opinion" paragraphs which precluded us from expressing an opinion on the consolidated financial statements, our opinion would have been qualified for this disagreement.

Disclaimer of opinion

Because of the potential interaction of the uncertainties relating to going concern and their possible cumulative effect on the financial statements described in the "basis for disclaimer of opinion" paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in our opinion the financial statements have been properly prepared in compliance 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

30 March 2016

Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in Hong Kong dollars)

	Note	2015 $'000	2014 $'000
Non-current assets			
Property, plant and equipment	15	**14,656,216**	16,540,504
Lease prepayments	17	**2,988,918**	3,606,989
Goodwill	19	**90,776**	96,405
Intangible assets	20	**36,484**	–
Interest in a joint venture	22	**–**	14,881
Non-current prepayments and receivables	23	**214,859**	305,831
Deferred tax assets	24	**11,014**	20,167
		17,998,267	20,584,777
Current assets			
Inventories	25	**885,300**	1,390,172
Other investment	26	**1,003**	101,407
Current portion of lease prepayments	17	**70,440**	82,860
Trade and other receivables	27	**3,134,274**	3,662,104
Income tax recoverable	10	**1,387**	1,581
Pledged deposits	28	**7,493**	232,809
Time deposits		**10,199**	6,168
Cash and cash equivalents	29	**401,011**	885,028
		4,511,107	6,362,129
Current liabilities			
Bank loans	30	**4,774,516**	3,818,771
Short term financing notes	31(a)	**596,801**	–
Medium term notes	31(b)	**1,192,305**	1,645,097
Finance lease liabilities	32	**542**	549
Trade and other payables	33	**2,684,164**	2,706,331
Income tax payable	10	**4,553**	12,427
		9,252,881	8,183,175
Net current liabilities		**(4,741,774)**	(1,821,046)
Total assets less current liabilities		**13,256,493**	18,763,731

Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in Hong Kong dollars)

	Note	2015 $'000	2014 $'000
Non-current liabilities			
Bank loans	30	**756,021**	1,379,154
Medium term notes	31(b)	**–**	1,266,629
Finance lease liabilities	32	**137,791**	146,907
Deferred tax liabilities	24	**31,051**	23,729
		924,863	2,816,419
NET ASSETS		**12,331,630**	15,947,312
EQUITY			
Share capital	35	**182,276**	182,276
Reserves		**12,098,265**	15,709,968
Total equity attributable to equity holders of the Company		**12,280,541**	15,892,244
Non-controlling interests		**51,089**	55,068
TOTAL EQUITY		**12,331,630**	15,947,312

Approved and authorised for issue by the Board of Directors on 30 March 2016.

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 51 to 115 are an integral part of these financial statements.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2015
(Expressed in Hong Kong dollars)

	Note	**2015 $'000**	2014 $'000
Revenue	6	**20,164,864**	19,157,889
Cost of sales		**(19,523,176)**	(18,171,316)
Gross profit		**641,688**	986,573
Other net (loss)/income	7	**(179,928)**	882,023
Distribution expenses		**(738,769)**	(697,482)
Administrative and other operating expenses		**(2,252,779)**	(1,005,533)
Results from operating activities		**(2,529,788)**	165,581
Finance income		**18,357**	34,391
Finance costs		**(435,266)**	(267,107)
Net finance costs	8(a)	**(416,909)**	(232,716)
Share of loss of a joint venture (net of income tax)	22	**(648)**	(3,310)
Loss before income tax	8	**(2,947,345)**	(70,445)
Income tax (expense)/credit	9	**(29,857)**	127,386
(Loss)/profit for the year		**(2,977,202)**	56,941
Attributable to:			
Equity holders of the Company		**(2,976,405)**	56,774
Non-controlling interests		**(797)**	167
(Loss)/profit for the year		**(2,977,202)**	56,941
(Loss)/earnings per share			
Basic	14(a)	**$ (1.633)**	$ 0.031
Diluted	14(b)	**$ (1.633)**	$ 0.031

The notes on pages 51 to 115 are an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015
(Expressed in Hong Kong dollars)

	Note	2015 $'000	2014 $'000
(Loss)/profit for the year		**(2,977,202)**	56,941
Other comprehensive income for the year (after reclassification adjustments)	13		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**(710,019)**	(47,907)
Foreign currency translation differences reclassified to profit or loss upon disposal and deconsolidation of subsidiaries and disposal of a joint venture		**2,429**	(67,947)
		(707,590)	(115,854)
Total comprehensive income for the year		**(3,684,792)**	(58,913)
Attributable to:			
Equity holders of the Company		**(3,680,813)**	(58,871)
Non-controlling interests		**(3,979)**	(42)
Total comprehensive income for the year		**(3,684,792)**	(58,913)

The notes on pages 51 to 115 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015
(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 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
At 1 January 2015		**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**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(2,976,405)**	**(2,976,405)**	**(797)**	**(2,977,202)**
Total other comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(704,408)**	**–**	**(704,408)**	**(3,182)**	**(707,590)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(704,408)**	**(2,976,405)**	**(3,680,813)**	**(3,979)**	**(3,684,792)**
Equity-settled share-based payments	34	**–**	**–**	**–**	**–**	**–**	**–**	**69,110**	**69,110**	**–**	**69,110**
Transfer to reserves		**–**	**–**	**–**	**–**	**995**	**–**	**(995)**	**–**	**–**	**–**
At 31 December 2015		**182,276**	**7,400,418**	**3,887**	**(70,363)**	**877,079**	**1,063,130**	**2,824,114**	**12,280,541**	**51,089**	**12,331,630**

The notes on pages 51 to 115 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2015
(Expressed in Hong Kong dollars)

	Note	**2015 $'000**	2014 $'000
Cash flows from operating activities			
(Loss)/profit for the year		**(2,977,202)**	56,941
Adjustments for:			
Depreciation	8(c)	**455,395**	532,748
Amortisation of lease prepayments	8(c)	**79,655**	87,127
Amortisation of intangible assets	8(c)	**9,492**	–
Interest income		**(14,003)**	(13,077)
Investment income from available-for-sale financial assets		**(4,354)**	(21,314)
Finance costs		**371,861**	262,021
Impairment losses on property, plant and equipment	8(c)	**1,025,027**	–
Impairment losses on lease prepayments	8(c)	**252,512**	–
Impairment losses on receivables arising from the disposal of a subsidiary	7	**186,046**	–
Share of loss of a joint venture		**648**	3,310
Loss/(gain) on disposal and deconsolidation of subsidiaries	7	**63,757**	(354,669)
Loss on disposal of a joint venture	7	**2,086**	–
Loss/(gain) on disposal of property, plant and equipment	7	**51,739**	(10,998)
Loss on disposal of lease prepayments	7	**69,408**	1,627
Equity-settled share-based payments	34	**69,110**	–
Unrealised foreign exchange loss		**55,185**	3,124
Income tax expense/(credit)		**29,857**	(127,386)
Operating (loss)/profit before change in working capital		**(273,781)**	419,454
Change in inventories		**440,997**	(222,843)
Change in trade and other receivables		**121,564**	(439,788)
Change in trade and other payables		**(15,664)**	263,731
Cash generated from operating activities		**273,116**	20,554
Finance costs paid		**(440,200)**	(471,342)
Income tax paid		**(19,838)**	(13,749)
Net cash used in operating activities		**(186,922)**	(464,537)

Consolidated Cash Flow Statement

For the year ended 31 December 2015
(Expressed in Hong Kong dollars)

	Note	2015 $'000	2014 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**48,589**	12,354
Proceeds from sale of available-for-sale financial assets		**352,179**	658,619
Proceeds from disposal and deconsolidation of subsidiaries	37	**24,742**	62,806
Proceeds from disposal of joint venture		**10,630**	–
Proceeds from disposal of lease prepayments		**14,166**	899
Interest received		**14,003**	13,077
Acquisition of property, plant and equipment		**(346,945)**	(698,835)
Acquisition of intangible assets		**(8,262)**	–
Payments for lease prepayments		**(942)**	(1,009)
Acquisition of available-for-sale financial assets		**(249,490)**	(738,263)
Changes in time deposits		**(4,570)**	27,225
Acquisition of addition equity interest in a subsidiary		**–**	(5,089)
Net cash used in investing activities		**(145,900)**	(668,216)
Cash flows from financing activities			
Proceeds from bank loans		**5,141,682**	3,690,752
Proceeds from short term financing notes		**619,565**	–
Repayments of medium term notes		**(1,617,516)**	–
Repayments of bank loans		**(4,479,768)**	(3,872,894)
Capital element of finance lease rentals paid		**(538)**	(567)
Interest element of finance lease rentals paid		**(5,281)**	(5,910)
Changes in pledged deposits		**220,354**	(220,387)
Net cash used in financing activities		**(121,502)**	(409,006)
Net decrease in cash and cash equivalents		**(454,324)**	(1,541,759)
Cash and cash equivalents at 1 January		**885,028**	2,444,694
Effect of exchange rate fluctuations on cash held		**(29,693)**	(17,907)
Cash and cash equivalents at 31 December	29	**401,011**	885,028

The notes on pages 51 to 115 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 2015 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 30 March 2016.

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. 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

(i) Uncertainties arising from the Incident

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"). Up to the date of approval of these consolidated financial statements, the Company has not received any update on the circumstances of this Incident or had any contact with Mr. Zhu.

Given that Mr. Zhu only occupies a non-executive role in the Company and the Group and was not involved in the daily management of the Group and the Group has not received any notice from any bank to accelerate repayment of loans for the reasons of the Incident, the directors of the Company are of the view that the Incident have not posed any material adverse impact on the operation of the Group and the Group will be able to continue as a going concern for the foreseeable future so far as this matter is concerned.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Basis of preparation (continued)

(b) Going concern basis (continued)

(ii) Other material uncertainties

During the year ended 31 December 2015, the Group's gross profit amounted to $641,688,000 (2014: $986,573,000). The Group recorded a net loss of $2,977,202,000 (2014: a profit of $56,941,000) and operating cash outflow of $186,922,000 (2014: $464,537,000) for the year ended 31 December 2015. As at 31 December 2015, the Group had net current liabilities of $4,741,774,000 (2014: $1,821,046,000). Its total borrowings and finance lease liabilities amounted to $7,457,976,000 (2014: $8,257,107,000), out of which $6,564,164,000 (2014: $5,464,417,000) is due within 12 months of that date. The Group incurred interest expenses of $484,061,000 (2014: $481,901,000) for the year ended 31 December 2015. As further detailed in note 30, as at 31 December 2015, the Group could not fulfil covenants imposed by banks of certain bank loans of an aggregate amount of $2,200,752,000 (2014: $202,079,000), of which repayments of $104,458,000 were due on or before 31 December 2015. On 17 March 2016, a subsidiary of the Group was unable to repay the short term financing notes due and triggered cross default provisions of certain outstanding financial facilities entered into by the Group of approximately $1,730,000,000 which resulted in the Group being under an immediate repayment obligation of such outstanding borrowings (notes 31(a) and 42). Certain subsidiaries of the Group are also party to various litigations as mentioned in note 39(c). These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

(i) Actively negotiating with banks to renew bank loans that have fallen due;

(ii) Implementing comprehensive policies to monitor cash flows through cutting costs and capital expenditure;

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

(iv) Seeking potential strategic investors; and

(v) Looking for buyers for certain non-core assets.

Taking into account the Group's cash flow projections covering a period of twelve months from the end of the reporting period prepared by management, and assuming the success of the above measures, the directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Basis of preparation (continued)

(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 note 3(d)(ii)) are stated at fair value in the consolidated statement of financial position.

(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 Renminbi ("RMB"). These consolidated financial statements are presented in HKD, which is the Company's functional currency. All financial information presented in HKD has been rounded to the nearest thousand except when otherwise indicated.

(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 43.

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 the following amendments to IFRSs that are first effective for the current accounting period of the Group and are relevant to the Group's financial statements:

- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(a) Change in accounting policies (continued)

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 amended IFRSs are discussed below:

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity.

These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

(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 (l)). 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.

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)

Non-controlling interests are presented in the consolidated statement of financial position 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 statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

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

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 statement of financial position, the investments in subsidiaries are stated at cost less impairment losses (see accounting policy (l)).

(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 end of the reporting period. 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.

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 statement of financial position 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 (l)).

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 (l)).

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 (l)) 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 (l)).

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 end of the reporting period 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 (l)). 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 (l)).

(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 (l)).

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 end of the reporting period and adjusted if appropriate.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Computer software with finite useful life is amortised from the date it is available for use and its estimated useful life is 5 years. Both the period and method of amortisation are reviewed annually.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(i) 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 statement of financial position.

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

(k) 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.

(l) 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 end of the reporting period 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(l) Impairment (continued)

(i) Non-derivative financial assets (continued)

Financial assets measured at amortised cost

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

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and make an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

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

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 (l)(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(l) Impairment (continued)

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets, (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro 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.

(m) 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)

(m) 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.

(n) 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.

(o) 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.

(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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(p) 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.

(q) 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.

(r) 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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(s) 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 end of the reporting period. 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 end of the reporting period 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 end of the reporting period.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Significant accounting policies (continued)

(t) 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).

(8) The entity or any member of a Group which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

(u) Segment reporting

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 Measurement of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

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

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

5 Operating segments

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM"), the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Chilled and frozen meat : The chilled and frozen meat segment carries on the business of slaughtering, production and sales of chilled and frozen meat.

Processed meat products : The processed meat products segment manufactures and distributes processed meat products.

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

(a) Segment results

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

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

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

– 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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

5 Operating segments (continued)

(a) Segment results (continued)

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.

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 2015 and 2014 is set out below:

	Chilled and frozen meat		**Processed meat products**		**Total**	
	2015	2014	**2015**	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
External revenue	**17,745,205**	16,414,673	**2,419,659**	2,743,216	**20,164,864**	19,157,889
Inter-segment revenue	**399,630**	748,169	**24,550**	15,853	**424,180**	764,022
Reportable segment revenue	**18,144,835**	17,162,842	**2,444,209**	2,759,069	**20,589,044**	19,921,911
Depreciation and amortisation	**(422,653)**	(506,001)	**(108,907)**	(98,004)	**(531,560)**	(604,005)
Impairment of property, plant and equipment and lease prepayments	**(1,243,377)**	–	**–**	–	**(1,243,377)**	–
(Provision for)/reversal of impairment losses on trade and other receivables	**(2,476)**	5,109	**(12,985)**	21,727	**(15,461)**	26,836
Government subsidies	**73,483**	83,522	**28,325**	330,591	**101,808**	414,113
Reportable segment (loss)/profit	**(2,015,673)**	(504,414)	**(186,435)**	360,572	**(2,202,108)**	(143,842)
Income tax expense	**(1,306)**	(5,595)	**(28,162)**	(25,197)	**(29,468)**	(30,792)

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(Expressed in Hong Kong dollars unless otherwise indicated)

5 Operating segments (continued)

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

	2015 $'000	2014 $'000
Revenue		
Total revenue from reportable segments	**20,589,044**	19,921,911
Elimination of inter-segment revenue	**(424,180)**	(764,022)
Consolidated revenue	**20,164,864**	19,157,889
(Loss)/profit		
Reportable segment loss	**(2,202,108)**	(143,842)
Elimination of inter-segment profits	**1,041**	601
Reportable segment loss derived from the Group's external customers	**(2,201,067)**	(143,241)
Share of loss of a joint venture	**(648)**	(3,310)
Loss on disposal of a joint venture	**(2,086)**	–
(Loss)/gain on disposal and deconsolidation of subsidiaries	**(63,757)**	354,669
Impairment losses on receivables arising from disposal of a subsidiary	**(186,046)**	–
Net finance costs	**(416,909)**	(232,716)
Income tax (expense)/credit	**(29,857)**	127,386
Unallocated head office and corporate expenses	**(76,832)**	(45,847)
Consolidated (loss)/profit for the year	**(2,977,202)**	56,941

(c) Geographical information

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

(d) Information about major customers

During the years ended 31 December 2015 and 2014, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

6 Revenue

Revenue 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 (loss)/income

	2015 $'000	2014 $'000
Government subsidies	**103,115**	415,966
Loss on disposal of a joint venture	**(2,086)**	–
(Loss)/gain on disposal and deconsolidation of subsidiaries (note 37)	**(63,757)**	354,669
Loss on disposal of lease prepayments	**(69,408)**	(1,627)
(Loss)/gain on disposal of property, plant and equipment	**(51,739)**	10,998
Impairment losses on receivables arising from disposal of a subsidiary (note 37(b))	**(186,046)**	–
Rental income	**37,022**	42,727
Sales of scrap	**1,005**	773
Sundry income	**51,966**	58,517
	(179,928)	882,023

8 Loss before income tax

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

(a) Net finance costs

	2015 $'000	2014 $'000
Interest on bank loans, medium term notes and short term financing notes	**478,780**	475,991
Interest on lease obligations	**5,281**	5,910
Less: Interest expense capitalised into property, plant and equipment under development*	**(114,660)**	(221,527)
	369,401	260,374
Bank charges	**2,460**	1,647
Net foreign exchange loss	**63,405**	5,086
Interest income from bank deposits	**(14,003)**	(13,077)
Investment income from available-for-sale financial assets	**(4,354)**	(21,314)
	416,909	232,716

* The borrowing costs have been capitalised at a rate of 6.0% per annum (2014: 6.2%).

Notes to the Consolidated Financial Statements
(Expressed in Hong Kong dollars unless otherwise indicated)

8 Loss before income tax (continued)

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

(b) Personnel expenses

	2015 $'000	2014 $'000
Salaries, wages and other benefits	**746,686**	830,553
Contributions to defined contribution pension schemes	**68,641**	80,532
Equity-settled share-based payments	**69,110**	–
	884,437	911,085

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% (2014: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2015.

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.

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8 Loss before income tax (continued)

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

(c) Other items

	2015 **$'000**	2014 $'000
Cost of inventories[#]	**19,523,176**	18,171,316
Impairment losses on receivables arising from the disposal of a subsidiary (note 37(b))	**186,046**	–
Impairment losses on other trade and other receivables	**24,301**	8,980
Reversal of impairment losses on trade and other receivables	**(8,840)**	(35,816)
Impairment losses on property, plant and equipment (note 15)	**1,025,027**	–
Impairment losses on lease prepayments (note 17)	**252,512**	–
Depreciation	**455,395**	532,748
Loss/(gain) on disposal of property, plant and equipment	**51,739**	(10,998)
Loss on disposal of lease prepayments	**69,408**	1,627
Loss on disposal of a joint venture	**2,086**	–
Loss/(gain) on disposal and deconsolidation of subsidiaries (note 37)	**63,757**	(354,669)
Operating lease charges in respect of land use rights and premises	**8,759**	11,893
Amortisation of lease prepayments	**79,655**	87,127
Amortisation of intangible assets	**9,492**	–
Research and development expenses (other than amortisation costs)	**14,791**	22,863
Auditors' remuneration		
– audit services	**7,482**	7,745
– other services	**1,911**	2,701

\# Cost of inventories includes $542,094,000 (2014: $609,629,000) 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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

9 Income tax expense/(credit)

Income tax expense/(credit) in the consolidated statement of profit or loss represents:

	Note	2015 $'000	2014 $'000
Current tax expense			
Current year	10	**10,706**	14,562
Under-provision in respect of prior years	10	**1,784**	3,516
		12,490	18,078
Deferred tax expense/(credit)			
Origination and reversal of temporary differences	24(b)	**17,367**	(145,464)
Income tax expense/(credit) in the consolidated of profit or loss		**29,857**	(127,386)

(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 2015 and 2014.

(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 2015 and 2014, 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 2015 and 2014.

(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 (2015: Nil).

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9 Income tax expense/(credit) (continued)

As at 31 December 2015, temporary differences relating to the undistributed profits of subsidiaries amounted to $4,949,156,000 (2014: $6,032,697,000). Deferred tax liabilities of $247,458,000 (2014: $301,635,000) in respect of the undistributed profits of $4,949,156,000 (2014: $6,032,697,000) were not recognised as at 31 December 2015 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 note 3(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $1,103,167,000 (2014: $373,967,000), the temporary differences relating to property, plant and equipment of $13,733,000 (2014: $Nil) and the temporary differences relating to impairment losses on trade and other receivables of $3,201,000 (2014: $Nil) 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.

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

	2015	2014
	$'000	$'000
Loss before income tax	**(2,947,345)**	(70,445)
Income tax using the PRC enterprise income tax rate of 25% (2014: 25%)	**(736,836)**	(17,611)
Effect of tax rate differential	**14,567**	12,569
Non-taxable income	**(34,415)**	(136,348)
Non-deductible expenses	**49,736**	5,564
Under-provision in respect of prior years	**1,784**	3,516
Withholding tax on profits from PRC subsidiaries	**240**	523
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	**149**	137
Effect of tax losses not recognised	**185,395**	32,427
Reversal of temporary difference recognised in prior years	**12,588**	–
Effect of utilisation of unrecognised tax losses in prior years	**(3,095)**	(6,381)
Effect of tax concessions	**539,744**	137,057
Income tax expense/(credit)	**29,857**	(127,386)

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10 Income tax (payable)/recoverable

Current taxation in the consolidated statement of financial position represents:

	2015 $'000	2014 $'000
At beginning of the year	(10,846)	(6,726)
Provision for PRC income tax and withholding tax on profits and interest income from PRC subsidiaries for the year	(10,706)	(14,562)
Under-provision in respect of prior years	(1,784)	(3,516)
Disposal of a subsidiary	–	212
PRC income tax and withholding tax paid	19,838	13,749
Effect of movements in exchange rates	332	(3)
At end of the year	(3,166)	(10,846)
Represented by:		
Income tax recoverable	1,387	1,581
Income tax payable	(4,553)	(12,427)
	(3,166)	(10,846)

11 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2015						
	Directors' fees $'000	Salaries, allowance and other benefits $'000	Contributions to retirement benefit schemes $'000	Bonus $'000	Sub-total $'000	Equity-settled share-based payments (Note) $'000	Total $'000
Executive directors							
Yu Zhangli	–	784	41	–	825	5,551	6,376
Ge Yuqi	–	1,472	20	–	1,492	2,775	4,267
Li Shibao	–	453	41	–	494	4,163	4,657
Sun Tiexin	–	415	41	–	456	2,902	3,358
Independent non-executive directors							
Gao Hui	253	–	–	–	253	–	253
Chen Jianguo	173	–	–	–	173	–	173
Li Qing (resigned on 13 August 2015)	108	–	–	–	108	–	108
Miao Yelian (appointed on 13 August 2015)	46	–	–	–	46	–	46
Total	580	3,124	143	–	3,847	15,391	19,238

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11 Directors' emoluments (continued)

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows: (continued)

	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

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(m)(iii).

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

Yu Zhangli, Li Shibao and Sun Tiexin have agreed to waive part of their director emoluments under the existing service agreement for the year ended 31 December 2015.

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

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.

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12 Individuals with highest emoluments

Of the five individuals with the highest emoluments including four (2014: three) existing directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining one individual during the year, and the emoluments in respect of the remaining two individuals during the year ended 31 December 2014 are as follows:

	2015	2014
	$'000	$'000
Salaries and other emoluments	**2,528**	15,594
Contributions to retirement benefit schemes	**18**	34
Equity-settled share-based payments	**2,902**	–
	5,448	15,628

The emoluments fell within the following bands:

	2015	2014
	Number of individuals	Number of individuals
$5,000,001 – $5,500,000	**1**	–
$6,000,001 – $6,500,000	**–**	1
$9,000,001 – $9,500,000	**–**	1

For the years ended 31 December 2015 and 2014, 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.

13 Other comprehensive income

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2015 and 2014.

14 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the year ended 31 December 2015 is based on the loss attributable to equity holders of the Company for the year of $2,976,405,000 (2014: profit of $56,774,000) and the weighted average number of 1,822,756,000 (2014: 1,822,756,000) shares in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share equals to basic (loss)/earning per share for the years ended 31 December 2015 and 2014 because the potential ordinary shares outstanding were anti-dilutive.

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15 Property, plant and equipment

	Properties $'000	Machinery and equipment $'000	Transportation vehicles $'000	Furniture and fixtures $'000	Construction in progress $'000	Total $'000
Cost:						
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
At 1 January 2015	**9,045,912**	**3,683,645**	**246,618**	**250,430**	**6,024,555**	**19,251,160**
Additions	**12,377**	**47,044**	**395**	**16,870**	**590,503**	**667,189**
Transfers	**296,351**	**77,267**	**–**	**30,425**	**(404,043)**	**–**
Disposals	**(21,434)**	**(34,012)**	**(18,549)**	**(13,677)**	**(58,870)**	**(146,542)**
Disposed of through disposal and deconsolidation of subsidiaries	**–**	**–**	**(260)**	**(47)**	**(93,898)**	**(94,205)**
Effect of movements in exchange rates	**(531,445)**	**(215,464)**	**(5,723)**	**(15,826)**	**(317,910)**	**(1,086,368)**
At 31 December 2015	**8,801,761**	**3,558,480**	**222,481**	**268,175**	**5,740,337**	**18,591,234**
Accumulated depreciation and impairment:						
At 1 January 2014	1,067,997	987,683	73,604	117,335	–	2,246,619
Depreciation	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
At 1 January 2015	**1,290,314**	**1,189,628**	**92,167**	**138,547**	**–**	**2,710,656**
Depreciation	**194,896**	**216,978**	**17,274**	**26,247**	**–**	**455,395**
Impairment losses	**299,403**	**94,867**	**34,666**	**2,061**	**594,030**	**1,025,027**
Disposals	**(5,088)**	**(14,811)**	**(15,817)**	**(10,498)**	**–**	**(46,214)**
Disposed of through disposal and deconsolidation of subsidiaries	**–**	**–**	**(90)**	**(34)**	**–**	**(124)**
Effect of movements in exchange rates	**(93,737)**	**(80,689)**	**(3,345)**	**(8,694)**	**(23,257)**	**(209,722)**
At 31 December 2015	**1,685,788**	**1,405,973**	**124,855**	**147,629**	**570,773**	**3,935,018**
Carrying amounts:						
At 31 December 2015	**7,115,973**	**2,152,507**	**97,626**	**120,546**	**5,169,564**	**14,656,216**
At 31 December 2014	7,755,598	2,494,017	154,451	111,883	6,024,555	16,540,504

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15 Property, plant and equipment (continued)

All properties are located in the PRC.

Ownership certificates of certain properties with an aggregate carrying value of $1,993,672,000 (2014: $2,187,456,000) at 31 December 2015 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 2015.

Security

At 31 December 2015, certain properties and construction in progress with carrying amounts of $1,585,099,000 (2014: $439,748,000) and $352,343,000 (2014: $100,308,000) respectively were pledged against bank loans (see note 30).

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 2015, the carrying amount of leased property, plant and equipment was $78,731,000 (2014: $88,163,000).

Impairment losses

In 2015, the chilled and frozen meat segment and processed meat product segment recorded losses. Management of the Company identified this as an impairment indicator and carried out an impairment review on the Group's assets. In assessing the recoverable amounts, management expects that the business performance of slaughtering and meat processing operations can be gradually improved noticeably during the projection period as a result of improving operating environment.

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(Expressed in Hong Kong dollars unless otherwise indicated)

15 Property, plant and equipment (continued)

Impairment losses (continued)

Following the new business plan of the Group, management identified certain property plant and equipment and lease prepayment which carrying values are likely to be recovered through a sales transaction. These assets are taken out from their previous CGUs and the recoverable amounts of these assets are measured based on their fair value less costs of disposal. This valuation model considers recent transaction prices of similar assets when they are available, and depreciation replacement cost when appropriate. Depreciated replacement cost reflects adjustments for percentage of completion (for construction in progress), physical deterioration as well as economic obsolescence. Economic obsolescence has to be taken into consideration future economic benefits to be generated by the assets. As such, cash flow projection is used in the determination of economic obsolescence. The fair value on which recoverable amount is based is categorised as a Level 3 measurement under the fair value hierarchy. Key unobservable inputs include replacement cost, economic obsolescence, and physical deterioration. Key assumptions in determining economic obsolescence include utilisation rate (average of 34%), gross profit margin (average of 5%) and discount rate (15%) adopted in the discounted cash flow analysis. An impairment loss on property, plant and equipment and lease prepayments of $1,025,027,000 and $252,512,000 respectively (2014: Nil) was recognised in "administrative and other operating expenses". Any unfavourable change would lead to further impairment.

For assets which management considers are likely to be recoverable through continuing use, the Group assessed the recoverable amount of each CGU based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. The key assumptions used during the five-year forecast period for the value-in-use calculation are as follows:

	As at 31 December 2015			As at 31 December 2014		
	CGUs chilled and frozen meat segment	**The CGU containing goodwill in chilled and frozen meat segment**	**CGU in processed meat products segment**	CGUs chilled and frozen meat segment	The CGU containing goodwill in chilled and frozen meat segment	CGU in processed meat products segment
Gross profit margin (average of next five years)	**5%**	**5%**	**24%**	7-9%	8%	24%
EBITDA margin (average of next five years)	**2%**	**2%**	**9%**	3-5%	4%	9%
Growth rate (average of the next five years)	**16-29%**	**29%**	**22%**	15-30%	21%	22%
Discount rate	**15%**	**15%**	**15%**	16%	16%	16%

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(Expressed in Hong Kong dollars unless otherwise indicated)

15 Property, plant and equipment (continued)

Impairment losses (continued)

Management determined the budgeted gross profit margin, EBITDA margin and growth rate based on past performance and its expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. Cash flows beyond the five-year period are extrapolated using growth rate of 0%, (2014: 0%) which does not exceed the long-term average growth rate for the business in which the CGU operates.

The recoverable amounts of each CGU based on the estimated value-in-use calculation were higher than their carrying amounts as at 31 December 2015 and 31 December 2014. Accordingly, no provision for impairment loss for assets which management considers are likely to be recoverable through continuing use. The carrying amount of non-current assets of these CGUs amounted to approximately $12.5 billion as at 31 December 2015.

The excess of recoverable amount calculated based on value-in-use calculation over carrying amount of each of these CGUs ranged from $7.0 million to $1.2 billion. Management has identified that a possible change in these key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows that amount by which these key assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	As at 31 December 2015			As at 31 December 2014		
	CGUs chilled and frozen meat segment	**The CGU containing goodwill in chilled and frozen meat segment**	**CGU in processed meat products segment**	CGUs chilled and frozen meat segment	The CGU containing goodwill in chilled and frozen meat segment	CGU in processed meat products segment
EBITDA margin (average of next five years)	**(0.01-1.62%)**	**(0.02%)**	**(0.43%)**	(0.62-3.29%)	(0.62%)	(3.02%)
Discount rate	**0.03-5.86%**	**0.06%**	**0.25%**	1.75-13.32%	1.75%	1.68%

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(Expressed in Hong Kong dollars unless otherwise indicated)

16 Investment properties

	2014
	$'000
Cost:	
At 1 January	251,989
Disposed of through disposal of a subsidiary	(250,018)
Effect of movements in exchange rates	(1,971)
At 31 December	–
Accumulated depreciation:	
At 1 January	46,045
Charge for the period	5,874
Disposed of through disposal of a subsidiary	(51,558)
Effect of movements in exchange rates	(361)
At 31 December	–
Carrying amounts:	
At 31 December	–

The investment properties of the Group mainly represent cold storage situated in the PRC. 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 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 $14,539,000. In 2014, the Group disposed of its entire equity interest in its owned subsidiary which held the Group's investment properties (see note 37).

17 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 37 to 50 years.

At 31 December 2015, land use rights with a carrying amount of $1,147,623,000 (2014: $565,453,000) were pledged against bank loans and unutilised bank loan facilities (see note 30).

An impairment loss on lease prepayments of $252,512,000 was recognised in "administrative and other operating expenses" (note 15).

18 Investments in subsidiaries

Particulars of principal subsidiaries are set out in Appendix 1 on pages 114 to 115.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Goodwill

	2015	2014
	$'000	$'000
At 1 January	**96,405**	96,736
Effect of movements in exchange rates	**(5,629)**	(331)
At 31 December	**90,776**	96,405

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. Details in respect of key assumptions used for the value-in-use calculation are set out in note 15.

20 Intangible assets

	2015
	$'000
Cost:	
At 1 January	**–**
Addition	**47,462**
Effect of movements in exchange rates	**(1,858)**
At 31 December	**45,604**
Accumulated amortisation:	
At 1 January	**–**
Charge for the year	**9,492**
Effect of movements in exchange rates	**(372)**
At 31 December	**9,120**
Carrying amount:	
At 31 December	**36,484**

Intangible assets represent computer software acquired by the Group. The amortisation charge of intangible assets was included in "administrative and other operating expenses".

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21 Acquisition of additional equity interest

The Group acquired the remaining 33% equity interest of Runyang Biotechnology Lianyungang Company Limited* 潤揚生物科技連雲港有限公司 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%.

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

22 Interest in a joint venture

	2015 $'000	2014 $'000
Share of net assets	**–**	14,881

Details of the joint venture as at 31 December 2014 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:

	2015 $'000	2014 $'000
Carrying amount of the joint venture in the consolidated financial statements	**–**	14,881
The Group's share of the joint venture's results:		
Loss for the period/year	**(648)**	(3,310)
Other comprehensive income	**(1,517)**	(77)
Total comprehensive income	**(2,165)**	(3,387)

The Group disposed of the 40% equity interest of Hubei Runhong to other equity holder in May 2015 at a cash consideration of $10,630,000. A loss on disposal of $2,086,000 was recognised during the year ended 31 December 2015.

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(Expressed in Hong Kong dollars unless otherwise indicated)

23 Non-current prepayments and receivables

	2015 $'000	2014 $'000
Prepayments for acquisitions of land use rights	**93,427**	98,257
Prepayments for acquisitions of property, plant and equipment	**101,887**	207,574
Receivables arising from the disposal of a subsidiary (note 37(a))	**19,545**	–
	214,859	305,831

24 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December 2015 are attributable to the following:

	Assets		Liabilities		Net	
	2015 $'000	2014 $'000	**2015 $'000**	2014 $'000	**2015 $'000**	2014 $'000
Property, plant and equipment	**9,600**	18,912	**(31,051)**	(23,729)	**(21,451)**	(4,817)
Impairment losses on trade and other receivables	**1,414**	1,255	**–**	–	**1,414**	1,255
Total deferred tax assets/(liabilities)	**11,014**	20,167	**(31,051)**	(23,729)	**(20,037)**	(3,562)

(b) Movements in temporary differences

Movements in temporary differences during the year are as follows:

	At 1 January 2014 $'000	Recognised in profit or loss $'000	Exchange difference $'000	At 31 December 2014 $'000	**Recognised in profit or loss $'000**	**Exchange difference $'000**	**At 31 December 2015 $'000**
Property, plant and equipment	3,319	(8,090)	(46)	(4,817)	**(17,609)**	**975**	**(21,451)**
Impairment losses on trade and other receivables	6,588	(5,285)	(48)	1,255	**242**	**(83)**	**1,414**
Withholding tax on profits from PRC subsidiaries	(159,747)	158,839	908	–	**–**	**–**	**–**
Total	(149,840)	145,464	814	(3,562)	**(17,367)**	**892**	**(20,037)**

Notes to the Consolidated Financial Statements

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25 Inventories

Inventories in the consolidated statement of financial position comprise:

	2015	2014
	$'000	$'000
Raw materials	**253,394**	327,747
Work in progress	**104,132**	134,022
Finished goods	**527,774**	928,403
	885,300	1,390,172

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

	2015	2014
	$'000	$'000
Carrying amount of inventories sold	**19,513,230**	18,103,236
Write down of inventories	**9,946**	68,080
	19,523,176	18,171,316

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

26 Other investment

	2015	2014
	$'000	$'000
Available-for-sale financial asset, unlisted	**1,003**	101,407

The directors considered that the available-for-sale financial asset does not have a quoted market price in an active market. The directors are of the opinion that the fair value of the available-for-sale financial asset cannot be reliably measured at 31 December 2015, the available-for-sale financial asset is thus measured at cost.

At 31 December 2014, available-for-sale financial asset with carrying amount of $101,407,000 was pledged against a bank loan (see note 30). The directors are of the opinion that the fair value of the available-for-sale financial asset approximates its cost at the end of the reporting period in view of the short maturity at 31 December 2014.

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27 Trade and other receivables

	2015	2014
	$'000	$'000
Trade receivables (note (a))	**561,672**	772,992
Bills receivable	**21,724**	16,045
Value-added tax recoverable	**1,951,077**	1,863,210
Deposits and prepayments	**116,710**	96,851
Receivables arising from the disposal of subsidiaries (note 37)	**388,990**	622,284
Others	**94,101**	290,722
	3,134,274	3,662,104

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:

	2015	2014
	$'000	$'000
Within 30 days	**341,309**	365,499
31 days to 90 days	**139,861**	167,953
91 days to 180 days	**48,599**	122,568
Over 180 days	**31,903**	116,972
	561,672	772,992

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

(b) Impairment of trade debtors

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

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27 Trade and other receivables (continued)

(b) Impairment of trade debtors (continued)

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

	2015 $'000	2014 $'000
At 1 January	**11,654**	38,733
Impairment losses recognised	**24,301**	8,980
Reversal of impairment losses on trade debtors	**(8,840)**	(35,816)
Effect of movements in exchange rate	**(1,286)**	(243)
At 31 December	**25,829**	11,654

At 31 December 2015, the Group's trade debtors of $25,829,000 (2014: $11,654,000) 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 $25,829,000 (2014: $11,654,000) were recognised.

(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:

	2015 $'000	2014 $'000
Neither past due nor impaired	**450,667**	633,893
Less than 1 month past due	**72,130**	89,466
1 to 3 months past due	**30,678**	38,593
Over 3 months past due	**8,197**	11,040
	111,005	139,099
	561,672	772,992

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

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

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28 Pledged deposits

	2015 $'000	2014 $'000
Deposits as security for bank loans and bills payable	**2,984**	228,165
Pledged deposit for utilities	**4,509**	4,644
	7,493	232,809

29 Cash and cash equivalents

	2015 $'000	2014 $'000
Cash at bank and on hand	**401,011**	885,028
Cash and cash equivalents in the cash flow statement	**401,011**	885,028

30 Bank loans

The bank loans are repayable as follows:

	2015 $'000	2014 $'000
Bank loans		
– Within one year or on demand	**4,774,516**	3,693,341
– After one but within two years	**352,113**	514,077
– After two but within five years	**403,908**	865,077
Proceeds from discounted bills		
– Within one year	**–**	125,430
Total loans	**5,530,537**	5,197,925
Less: Loans due within one year or on demand classified as current liabilities	**(4,774,516)**	(3,818,771)
Non-current loans	**756,021**	1,379,154

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(Expressed in Hong Kong dollars unless otherwise indicated)

30 Bank loans (continued)

	2015 $'000	2014 $'000
Terms		
Unsecured bank loans denominated in RMB (note (i))		
– Variable interest rate at prevailing market rate	**445,024**	820,803
– Fixed interest rate at 4.57% to 7.28% (2014: 5.60% to 6.60%)	**2,092,251**	2,243,631
Secured bank loans denominated in RMB (notes (i) and (ii))		
– Variable interest rate at prevailing market rate	**2,429,452**	1,944,682
– Fixed interest rate at 4.35% to 5.88% (2014: 6.18%)	**563,810**	63,379
Proceeds from discounted bills denominated in RMB (note (iii))	**–**	125,430
	5,530,537	5,197,925

Notes:

(i) Certain of the Group's bank loan facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 31 December 2015, the Group could not fulfil covenants imposed by banks on certain loans of an aggregate amount of $2,200,752,000 (2014: $202,079,000). Included in this amount are, (i) loans of an aggregate amount of $61,006,000 which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position; and (ii) an outstanding loan balance of $291,456,000 of which instalment repayments of $104,458,000 were due on or before 31 December 2015 but were not yet renewed or repaid at the end of the reporting period. The Group is in negotiating with banks to renew bank loans which have fallen due but are not yet renewed or repaid. Up to the date of approval of these consolidated financial statements, bank loans of $17,904,000 were renewed and bank loans of $5,741,000 were repaid.

Subsequent to 31 December 2015 and up to the date of approval of the consolidated financial statements, bank loans of $576,723,000 have fallen due according to the repayment schedule as stated in the loan agreements. Of these, bank loans of $107,424,000 were renewed and $63,421,000 were repaid.

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

(ii) The carrying value of assets pledged against the bank loans is analysed as follows:

	2015 $'000	2014 $'000
Properties	**1,585,099**	439,748
Construction in progress	**352,343**	100,308
Lease prepayments	**1,147,623**	506,004
Pledged deposits	**2,984**	164,786
Available-for-sale financial asset	**–**	101,407

Included in the secured bank loans at 31 December 2015, bank loans of $1,193,602,000 were also guaranteed by related companies and secured by assets owned by related companies, including equity securities with market value of $933,278,000 and receivables of $608,737,000. These related companies were owned by Mr. Zhu. In addition, bank loans of $119,360,000 were guaranteed by Mr. Zhu.

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30 Bank loans (continued)

(iii) At 31 December 2014, intragroup bills payable totalling $125,430,000 were secured by pledged deposits amounting to $63,379,000. The corresponding intragroup bills receivable totalling $125,430,000 were discounted with recourse. The proceeds from discounting are stated in the consolidated statement of financial position as secured bank loans.

(iv) At 31 December 2015, there were outstanding litigations commenced by a bank against a subsidiary of the Group requesting the subsidiary to secure the repayment of outstanding bank loans of $100,776,000 with assets of equivalent amount. Certain assets of the Group with carrying value of $87,864,000 have been frozen by the court as of 31 December 2015. The Group is negotiating with the bank to settle these litigations.

31 Short term financing notes and medium term notes

(a) Short term financing notes

On 16 March 2015, a subsidiary of the Group issued the first tranche of 366-day short term financing notes of RMB500,000,000 in the PRC interbank debenture market with an interest rate of 6.45% per annum. The notes fell due on 17 March 2016. Disclosures in respect of the settlement of the notes are set out in note 42.

(b) Medium term notes

	2015	2014
	$'000	$'000
Medium term notes	**1,192,305**	2,911,726
Less: medium term notes due within one year	**(1,192,305)**	(1,645,097)
Non-current medium term notes	**–**	1,266,629

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 and due on 13 May 2016. The first tranche of unsecured 3-year medium term notes of RMB1,300,000,000 with an interest rate of 5.49% per annum issued on 17 October 2012 were repaid on the due date on time.

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32 Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

	2015			2014		
	Total minimum lease payments $'000	**Interest expense relating to future periods $'000**	**Present value of the minimum lease payments $'000**	Total minimum lease payments $'000	Interest expense relating to future periods $'000	Present value of the minimum lease payments $'000
Within one year	**5,591**	**5,049**	**542**	5,937	5,388	549
After one but within two years	**5,012**	**4,540**	**472**	11,519	5,362	6,157
After two but within five years	**15,036**	**13,500**	**1,536**	15,968	14,402	1,566
More than five years	**187,740**	**51,957**	**135,783**	192,460	53,276	139,184
	207,788	**69,997**	**137,791**	219,947	73,040	146,907
Total finance lease obligations	**213,379**	**75,046**	**138,333**	225,884	78,428	147,456

33 Trade and other payables

	2015 $'000	2014 $'000
Trade payables	**960,278**	1,082,209
Receipts in advance	**260,285**	280,486
Deposits from customers	**118,375**	138,082
Salary and welfare payables	**82,543**	94,334
Value-added tax payable	**4,239**	4,393
Payables for acquisitions of property, plant and equipment	**503,671**	663,537
Other payables and accruals	**754,773**	443,290
	2,684,164	2,706,331

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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33 Trade and other payables (continued)

An ageing analysis of trade payables of the Group based on invoice date, is analysed as follows:

	2015	2014
	$'000	$'000
Within 30 days	**690,771**	865,231
31 days to 90 days	**95,153**	116,786
91 days to 180 days	**57,131**	26,350
Over 180 days	**117,223**	73,842
	960,278	1,082,209

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.

In 2015, the directors of the Company approved to waive the performance-based condition set by the Company for the third tranche of 2013 March Options and 2013 June Options in order to provide incentives for the qualified employees. Expense of $69,110,000 was recognised as cost of services received from the grantees.

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34 Equity-settled share-based payments (continued)

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

	2015		2014	
	Weighted average exercise price	**Number of options ’000**	Weighted average exercise price	Number of options ’000
Outstanding at 1 January	**$6.76**	**149,582**	$7.66	214,434
Exercised during the year	**–**	**–**	–	–
Granted during the year	**–**	**–**	–	–
Lapsed during the year	**$8.00**	**(80,776)**	$9.74	(64,852)
Outstanding at 31 December	**$5.32**	**68,806**	$6.76	149,582
Exercisable at 31 December	**$7.46**	**7,231**	$7.46	7,394

No share options were exercised during the years ended 31 December 2015 and 2014.

2006 Options, 2011 Options, 2013 March Options and 2013 June Options outstanding at 31 December 2015 had exercise price of $7.46, $18.04, $5.142 and $5.002 and the weighted average contractual lives of 0.86 (2014: 1.86), 5.74 (2014: 6.74), 7.23 (2014: 8.23) and 7.45 (2014: 8.45) years respectively.

35 Share capital

(a) Authorised and issued share capital

	2015		2014	
	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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 Share capital (continued)

(b) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2015 Number '000	2014 Number '000
After the result announcement for the year ended 31 December 2007 to 9 November 2016	$7.46	**831**	850
After the result announcement for the year ended 31 December 2008 to 9 November 2016	$7.46	**1,711**	1,750
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	**2,576**	2,634
After the result announcement for the year ended 31 December 2010 to 9 November 2016	$7.46	**2,104**	2,151
After the result announcement for the year ending 31 December 2014 to 2 September 2021	$18.04	**–**	18,363
After the result announcement for the year ended 31 December 2014 to 24 March 2023	$5.142	**–**	14,900
After the result announcement for the year ended 31 December 2015 to 24 March 2023	$5.142	**13,650**	14,900
After the result announcement for the year ended 31 December 2016 to 24 March 2023	$5.142	**13,650**	14,900
After the result announcement for the year ended 31 December 2014 to 13 June 2023	$5.002	**–**	26,375
After the result announcement for the year ended 31 December 2015 to 13 June 2023	$5.002	**17,137**	26,375
After the result announcement for the year ended 31 December 2016 to 13 June 2023	$5.002	**17,138**	26,375
		68,806	149,582

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 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
At 1 January 2015	**7,400,418**	**297,480**	**(3,414)**	**7,694,484**
Loss for the year	**–**	**–**	**(22,167)**	**(22,167)**
Equity-settled share-based payment	**–**	**–**	**69,110**	**69,110**
At 31 December 2015	**7,400,418**	**297,480**	**43,529**	**7,741,427**

(b) Share premium

Under the Bermuda Companies Act 1981, the share premium account may be applied by the Company in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(c) Capital surplus

The capital surplus represented the excess of paid-in capital of the companies comprising the Group.

(d) Merger reserve

The merger reserve of the Group represents the difference between the net carrying value of the Predecessor Entities and non-controlling interests acquired over the consideration given. This reserve is distributable.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

36 Reserves and dividends (continued)

(e) PRC statutory reserves

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

(i) Statutory surplus reserve

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

(ii) Statutory general reserve

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

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

(f) Exchange reserve

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

(g) Contributed surplus

Pursuant to the Reorganisation, the Company became the holding company of the Group on 10 September 2005. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

36 Reserves and dividends (continued)

(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 2015, the aggregate amount of reserves available for distribution to equity holders of the Company was $7,741,427,000 (2014: $7,694,484,000).

(i) Dividend

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2015 (2014: HK$Nil).

(j) Capital management

The Board of Directors' capital management policies are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Certain measures have been taken by the directors to mitigate the liquidity pressure as set out in note 2(b). 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 return on capital for the year ended 31 December 2015 was -24.2% (2014: 0.4%).

The Group is not subject to externally imposed capital requirement.

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(Expressed in Hong Kong dollars unless otherwise indicated)

37 Changes in group structure

(a) Deconsolidation of subsidiaries in 2015

In 2015, the Group deconsolidated the following subsidiaries:

(i) The Group disposed of its entire equity interest of a wholly owned subsidiary in chilled and frozen meat segment at a total consideration of $30,164,000. A loss on disposal of a subsidiary amounting to $12,047,000 was recognised during the year ended 31 December 2015. According to the transfer agreement, the consideration shall be payable in five equal instalments over 5 years. The first instalment is due in late 2016.

(ii) At 31 December 2015, a wholly owned subsidiary of the Group in chilled and frozen meat segment was under creditors' liquidation. The Group lost its control over this entity and this entity was deconsolidated in 2015. A loss on deconsolidation amounting to $51,710,000 was recognised during the year ended 31 December 2015. This entity was at the initial development stage and has not yet commenced production. The loss on deconsolidation was estimated based on management's expectation on the likely outcome of the liquidation and the amount that would be recoverable by the Group in the capacity of the equity owner of this entity. The estimated recoverable amount is approximately $62,090,000.

The loss on disposal and deconsolidation of subsidiaries in included in "other net loss" in the consolidated statement of profit and loss (note 7). The disposal and deconsolidation had the following effect on the Group's assets and liabilities.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 Changes in group structure (continued)

(a) Deconsolidation of subsidiaries in 2015 (continued)

	$'000
Net assets disposed of:	
Property, plant and equipment (note 15)	**94,081**
Lease prepayments	**16,286**
Trade and other receivables	**77**
Cash and cash equivalents	**103**
Trade and other payables	**(24,746)**
Net assets	**85,801**
Exchange reserve realised on disposal and deconsolidation	**3,946**
Loss on disposal and deconsolidation of subsidiaries (note 7)	**(63,757)**
	25,990
Satisfied by:	
Cash consideration	**30,164**
Less: Loss on discounting the consideration receivable	**(4,174)**
	25,990
Less: effects of movement in exchange rates	**(924)**
	25,066
Less: portion classified as current receivable	**(5,521)**
Non-current receivable	**19,545**
Cash consideration received	**–**
Cash of subsidiary disposed and deconsolidated	**(103)**
Net outflow of cash and cash equivalents in respect of disposal and deconsolidation of subsidiaries	**(103)**

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 Changes in group structure (continued)

(b) Disposal in 2014

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 ("Nanjing Runlong")* 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 consideration of $682,686,000. A gain on disposal of subsidiary amounting to $354,669,000 was recognised during the year ended 31 December 2014 (see note 7). According to the 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 in 2014.

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

	$'000
Net assets disposed of:	
Property, plant and equipment (note 15)	30,363
Investment property (note 16)	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 subsidiary (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 Changes in group structure (continued)

(b) Disposal in 2014 (continued)

The outstanding consideration was partially settled in 2015, amounted to $24,845,000. As Nanjing Runlong was unable to settle the remaining consideration, the transaction was terminated in December 2015. The transfer of the equity of the former subsidiary to the Group was subsequently completed in March 2016. Impairment loss of $186,046,000 on consideration receivables, estimated based on the difference between the outstanding receivable and the fair value of the former subsidiary, was recognised in the profit or loss (note 7). The estimates of recoverable amount were based on the fair values of the assets and liabilities of the subsidiary less costs of disposal, using replacement cost approach by reference to recent cost price of similar assets within the same industry, adjusted for differences such as remaining useful lives. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement.

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.

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

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, derivative financial instruments and deposits with banks. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and counterparty to the financial instruments.

Trade and other receivables

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 34% (2014: 31%) 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 statement of financial position 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. As disclosed in note 2(b), certain measures have been taken by the directors to mitigate the liquidity pressures faced by the Group.

The contractual maturities and contractual cash outflow of the finance lease liabilities are disclosed in note 32. The following are the contractual maturities at the end of the reporting period of bank loans, medium term notes and short term financing notes of the Group based on lender's ability to demand earliest repayment, including estimated interest payments and excluding the impact of netting agreements:

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

38 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

31 December 2015

	Carrying amount $'000	Contractual undiscounted cash flows $'000	3 months or less or on demand $'000	3 - 6 months $'000	6 - 9 months $'000	9 - 12 months $'000	1 - 2 years $'000	2 - 5 years $'000
Bank loans	**5,530,537**	**5,703,674**	**2,510,392**	**163,456**	**500,631**	**1,721,184**	**382,877**	**425,134**
Medium term notes	**1,192,305**	**1,216,117**	**–**	**1,216,117**	**–**	**–**	**–**	**–**
Short term financing notes	**596,801**	**604,900**	**604,900**	**–**	**–**	**–**	**–**	**–**
	7,319,643	**7,524,691**	**3,115,292**	**1,379,573**	**500,631**	**1,721,184**	**382,877**	**425,134**

31 December 2014

	Carrying amount $'000	Contractual undiscounted cash flows $'000	3 months or less or on demand $'000	3 - 6 months $'000	6 - 9 months $'000	9 - 12 months $'000	1 - 2 years $'000	2 - 5 years $'000
Bank loans	5,197,925	5,555,879	1,209,159	542,915	916,804	1,361,812	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	1,209,159	566,845	916,804	3,081,783	1,918,742	940,837

Save as the above, the Group'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 statement of financial position.

(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, short term financing notes and medium term notes are disclosed in notes 30 and 31.

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 end of the reporting period would not affect profit or loss.

Notes to the Consolidated Financial Statements

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38 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the end of the reporting period would have decreased the Group's retained earnings and increased loss after tax by approximately $11,591,000 (2014: decreased profit after tax by $4,058,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The impact on the Group's loss after tax and retained earnings is estimated as impact on interest expense in respect of the loan remaining outstanding as at the end of the reporting period of such a change in interest rate. The analysis is performed on the same basis for 2014.

A decrease of 100 basis points in interest rates at the end of the reporting period 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)					
	2015			2014		
	Euro	**USD**	**RMB**	Euro	USD	RMB
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Other current assets	**21,791**	**272,961**	**890,498**	33,324	281,665	970,845
Other current liabilities	**(1,837)**	**(232,808)**	**–**	(4,952)	(235,841)	–
	19,954	**40,153**	**890,498**	28,372	45,824	970,845

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

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, short-term bank loans, short term financing notes and medium term notes 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:

	2015			2014		
	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	**138,333**	**109,892**	**109,892**	147,456	110,821	110,821

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:

	2015	2014
Finance lease liabilities	**5.53%**	5.93%

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 revenue.

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.

Notes to the Consolidated Financial Statements

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39 Commitments and contingent liabilities

(a) Operating leases

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

	2015	2014
	$'000	$'000
Within 1 year	**1,159**	1,319
After 1 year but within 5 years	**1,471**	2,285
Over 5 years	**1,471**	1,868
	4,101	5,472

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 2015 not provided for in the financial statements were as follows:

	2015	2014
	$'000	$'000
Contracted for	**4,504,540**	5,857,464
Authorised but not contracted for	**–**	–
	4,504,540	5,857,464

(c) Contingent liabilities

There were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fee totalling approximately $104,405,000. Based on the advice of the Group's in-house legal counsel, the directors estimated the Group will be liable to pay $70,317,000 for the settlement of the litigations. As such provision of this amount had been provided and included in "trade and other payables".

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

40 Related party transactions

In addition to the transactions disclosed elsewhere in the consolidated financial statements, the Group had the following material related party transactions during the year:

(a) Significant related party transactions

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

	2015	2014
	$'000	$'000
Sales of raw materials to related companies (note)	**5,429**	6,978
Sales of finished goods to related companies (note)	**15,611**	10,788
Purchases of raw materials from related companies (note)	**275,646**	427,595

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 15 and 32) and operating leases respectively. The rental paid or payable to the Predecessor Entities for the year ended 31 December 2015 amounted to $6,153,000 (2014: $6,251,000).

(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 $155,808,000 (2014: $171,932,000) as at 31 December 2015 to the Group. No rental is paid or payable by any of the group companies.

(iv) Guarantee granted by related parties

As disclosed in note 30 to the consolidated financial statements, certain bank loans of the Group were guaranteed by related parties or secured by assets of related parties.

(b) Amounts due from related parties

	2015	2014
	$'000	$'000
Trade receivables due from related companies (note 40(a)(i))	**3,859**	6,254
Other receivables due from related companies (note 40(a)(i))	**1,520**	3,677

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 2015 and 2014.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

40 Related party transactions (continued)

(c) Amounts due to related parties

	2015	2014
	$'000	$'000
Trade payables due to related companies (note 40(a)(i))	**65,795**	47,914
Other payables due to related companies (note 40(a)(i) and 40(c)(i))	**178,682**	–

(i) Certain related parties settled certain payables on behalf of the Group during the year ended 31 December 2015.

Amounts due to 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 Company-level statement of financial position

		2015 $'000	2014 $'000
Non-current assets			
Investments in subsidiaries		**766,468**	709,847
Current assets			
Other receivables		**505**	467
Amounts due from subsidiaries		**7,155,799**	7,174,727
Cash and cash equivalents		**13,577**	3,213
		7,169,881	7,178,407
Current liabilities			
Other payables		**12,646**	11,494
Net current assets		**7,157,235**	7,166,913
Total assets less current liabilities		**7,923,703**	7,876,760
NET ASSETS		**7,923,703**	7,876,760
EQUITY			
Share capital	35	**182,276**	182,276
Reserves	36	**7,741,427**	7,694,484
TOTAL EQUITY		**7,923,703**	7,876,760

42 Subsequent events

On 17 March 2016, a subsidiary of the Group was unable to repay the short term financing notes of RMB500,000,000 (approximately $597,000,000) due (the "Default"). The subsidiary has paid the full amount of outstanding principal and accrued interests to the designated accounts for full repayment by 30 March 2016. The Default have triggered the cross default provisions of certain outstanding borrowings of the Group. The estimated aggregate principal amount of such outstanding borrowings is approximately RMB1,450,000,000 (approximately $1,730,000,000) and these outstanding borrowings became repayable on demand. The Group is proactively negotiating with the relevant banks and the Board of Directors considers that the possibility of immediate repayment being demanded as a result of the Default is not high.

There are also certain other outstanding financial facilities obtained by other members of the Group for which this subsidiary acts as the guarantor. Based on the relevant facility agreements, these outstanding financial facilities would be terminated if there is any possibility of material adverse change to the repayment ability of the guarantor. However, the directors, having obtained the PRC legal counsel's opinion, is of the view that the possibility of immediate repayment being demanded is not high.

On 30 March 2016, the Board of Directors of the Company approved a capital expenditure plan for 2016 amounting to RMB200,000,000.

Notes to the Consolidated Financial Statements

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43 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 and non-current prepayments

The Group reviews its property, plant and equipment, lease prepayments, goodwill and non-current prepayments for indications of impairment at each end of the reporting period according to accounting policies set out in note 3(l). 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 for assets which management considers are likely to be recoverable through continuing use or recent transaction prices of similar assets when they are available and depreciation replacement cost when appropriate for assets which management considers are likely to be recoverable through a sales transaction. 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.

(iii) Loss and deconsolidation and impairment of receivables arising from disposal of subsidiaries

As detailed in note 37, the group recognised loss on deconsolidation and impairment loss on consideration receivable arising from disposal of subsidiaries. Judgement and estimates are required in determining the loss, including the likelihood and time required to recover the equity of the former subsidiaries. Should the outcome be differ from management estimate, any consequential adjustment will impact the profit or loss of the Group.

(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 end of the reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(v) Taxation

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(Expressed in Hong Kong dollars unless otherwise indicated)

43 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(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.

(vii) Litigation provision

The Group has been involved in several legal proceedings. The Group assessed the provision required or disclosed as contingent liabilities based on its legal assessment. Further details of the proceedings are disclosed in note 39(c). Further development of the proceedings may result in different assessments of the financial consequences in subsequent years.

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2015

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 2015 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
Annual improvements to IFRSs 2012-2014 Cycle	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
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operation*	1 January 2016
Amendments to IAS 1, *Disclosure initiative*	1 January 2016
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
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

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.

List of Principal Subsidiaries

Appendix 1

The following list contains only the particulars of subsidiaries as at 31 December 2015 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 %	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 and processed meat products
Maanshan Yurun Food Co., Ltd. (note (i)) 馬鞍山雨潤食品有限公司	The PRC	US$55,000,000	–	100	Production and sales of processed meat products
Nanjing Yurun Food Co., Ltd. (note (i)) 南京雨潤食品有限公司	The PRC	US$190,000,000	–	100	Production and sales of processed meat products

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 %	Attributable equity interest held by the Company Indirect %	Principal activity
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 products
Shenyang Furun Food Co., Ltd. (note (i)) 瀋陽福潤肉類加工有限公司	The PRC	US$60,000,000	–	100	Slaughtering, production and sales of chilled and frozen meat and processed meat products
Suzhou Furun Meat Processing Co., Ltd. (note (iii)) 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
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
Xiangyang Zhende Meat Product Co., Ltd. (note (iii)) 襄陽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)

	2011 $'000	2012 $'000	2013 $'000	2014 $'000	**2015** **$'000**
Assets and liabilities					
Non-current assets	17,129,226	19,030,685	20,581,555	20,584,777	**17,998,267**
Net current assets/(liabilities)	160,169	347,225	688,558	(1,821,046)	**(4,741,774)**
Total assets less current liabilities	17,289,395	19,377,910	21,270,113	18,763,731	**13,256,493**
Non-current liabilities	(1,117,648)	(3,831,463)	(5,258,799)	(2,816,419)	**(924,863)**
Net assets	16,171,747	15,546,447	16,011,314	15,947,312	**12,331,630**
Share capital	182,276	182,276	182,276	182,276	**182,276**
Reserves	15,926,506	15,306,908	15,767,735	15,709,968	**12,098,265**
Total equity attributable to equity holders of the Company	16,108,782	15,489,184	15,950,011	15,892,244	**12,280,541**
Non-controlling interests	62,965	57,263	61,303	55,068	**51,089**
Total equity	16,171,747	15,546,447	16,011,314	15,947,312	**12,331,630**
Operating results					
Revenue	32,315,193	26,781,632	21,440,039	19,157,889	**20,164,864**
Results from operating activities	1,942,117	(422,223)	262,268	165,581	**(2,529,788)**
Net finance costs	(36,231)	(144,912)	(154,267)	(232,716)	**(416,909)**
Share of losses of associates	(299)	(250)	(290)	–	**–**
Share of loss of a joint venture	(114)	(2,185)	(4,218)	(3,310)	**(648)**
Profit/(loss) before income tax	1,905,473	(569,570)	103,493	(70,445)	**(2,947,345)**
Income tax (expense)/credit	(99,532)	(41,537)	(64,059)	127,386	**(29,857)**
Profit/(loss) for the year	1,805,941	(611,107)	39,434	56,941	**(2,977,202)**
Attributable to:					
Equity holders of the Company	1,799,088	(605,455)	43,592	56,774	**(2,976,405)**
Non-controlling interests	6,853	(5,652)	(4,158)	167	**(797)**
Profit/(loss) for the year	1,805,941	(611,107)	39,434	56,941	**(2,977,202)**
Earnings/(loss) per share					
Basic ($)	0.989	(0.332)	0.024	0.031	**(1.633)**
Diluted ($)	0.985	(0.332)	0.024	0.031	**(1.633)**