



Chairman's Statement

Strong brands lead the industry

Zhu Yicai
Chairman



Dear Shareholders,

On behalf of the board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries, (collectively referred to as the "Group"), I am pleased to present to you the annual results of Yurun Food for the year ended 31 December 2006 ("Review Period").

Business Review

The PRC pork industry witnessed a number of challenges throughout 2006. Amid an unfavourable business environment, the pork and food industry was impacted by the continued price increase in corn as major feed stock, fluctuating prices of live hog and pork, and the unprecedented drought across major hog supplying regions. However, Yurun Food managed to maintain its leading position in the meat product industry by capitalising on its experience in the meat

product industry, adopting flexible procurement and distribution pricing strategy to address itself to the changing material and product markets. This was further strengthened by its continued efforts to expand production capacity and diversify product mix with an unchanged commitment to product quality under the principle that being socially responsible and concerned about the health of the consumers are crucial qualities for food manufacturers.

Year 2006 is an important year to Yurun Food. By increasing advertisement in selectively high return mobile media, the "Yurun" brand recognition was significantly improved across mid-to-high end markets and second to third tier cities. For a better strategic landscape of production bases, the Company continued to expand its production capacity by acquiring plants at Beixu of Henan province, Jinan of Shandong province and Badong of Hubei province as well as upgrading certain existing

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plants during the year. Construction of new capacity in northeastern China and expansion of existing plants in eastern China have been at full speed to pave the way for sustained capacity growth and meeting the market demand in 2007.

Thanks to the effort of the staff, the Group achieved steadily improving and encouraging results in the Review Period. For year 2006, turnover increased by 6.0 % to RMB4.721 billion and profit attributable to equity holders of the Company grew by 36.3% to RMB489 million over last year, with basic earnings per share of RMB0.34. Given that both turnover and profit attributable to equity holders of the Company meet the Group's targets, the Board has proposed a final dividend of HK\$0.042 per share in return for great supports of shareholders.

The Company's desirable growth mainly derives from its strategic regional landscape, established distribution channels, strong edge in research and development and superior brand strength. In response to the unfavourable market environment, the Group timely realigned its product mix and leveraged on its extensive sale and distribution network and advertising and promotion campaigns to boost its competitiveness.

Prospect

China is the largest pork consumer of the world. With the increasing income and living standards, Chinese consumers are paying more attention to food brand and quality, food hygiene and safety. Along with the even more stringent government regulations on domestic food industry, it is expected that the market will be more strictly regulated and therefore some below standard meat product manufacturers or slaughterhouses will be eliminated. All these long-term favourable factors will translate into market consolidation which shall bring vigorous growth opportunities for large-scale meat product manufacturers, including the Group which is already equipped with scale merit, capabilities, brand recognition and high quality products.

Looking into the future, the Group will continue its efforts in branding and marketing throughout its extensive production and distribution network. Moreover, the Group will continue

innovations and investment in product research and development, while strengthening procurement network and increasing its productions capacity. The Group aims at optimising product mix with a higher proportion of high-end LTMP and chilled pork to cater to the market demand.

Acknowledgement

Yurun Food will continue to devote itself to becoming the leading branded meat product supplier in China. On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and business partners for their unremitting support and trust. My gratitude also goes to our excellent management team and staff who have dedicated to the Group's development. Leaving no stone unturned in the light of its commitment to food quality and hygiene, the Group is positioned to become a first-tier food manufacturer and bring shareholders more attractive returns.

Zhu Yicai

Chairman

Hong Kong, 12 April 2007



**Our renowned brands
pioneer the meat market in China**



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Our quality products are extending presence in high-end distribution channel