Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

China Yurun Food Group Limited ("the Company") was incorporated in Bermuda on 21 March 2005 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.

The consolidated financial statements of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate. The Group is primarily involved in slaughtering, production and sale of chilled and frozen meat and processed meat products. The financial statements were authorised for issue by the directors on 12 April 2007.

1 Reorganisation

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 of Hong Kong Limited (the "Stock Exchange"), the business operations of slaughtering, production and sale of chilled and frozen meat, and processed meat products with relevant assets and liabilities of the entities under common control (collectively referred to as "Predecessor Entities") were transferred to the companies now comprising the Group and the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 3 October 2005.

Details of the Reorganisation are set out in the prospectus dated 20 September 2005 issued by the Company.

2 Basis of Presentation

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 10 September 2005. Accordingly, the consolidated results of the Group for the year ended 31 December 2005 include the results of the Company and its subsidiaries with effect from 1 January 2005 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the years presented. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3 Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

3 Basis of Preparation *(Continued)*

(b) Basis of measurement

The consolidated financial statements have been prepared on historical cost basis.

(c) Functional and presentation currency

The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have their functional currencies in Hong Kong dollars and subsidiaries established in the People's Republic of China (the "PRC") have their functional currencies in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group. All financial information presented in Renminbi has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements 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 significance of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 5 and 40.

4 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.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

4 Significant Accounting Policies *(Continued)*

(a) *Basis of consolidation* (Continued)

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of an equity accounted investee, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has obligations or made payments on behalf of the investee.

(iii) Jointly controlled operations

Jointly controlled operation is a contractual arrangement whereby the Group and other parties combine their operations, resources and expertise to undertake an economic activity in which each party bears its own costs and takes a share of the revenue in the economic activity, such share being determined in accordance with the contractual arrangement.

In respect of the Group's interests in jointly controlled operations, the consolidated balance sheet includes the assets that it controls and the liabilities that it incurs; and the consolidated income statement includes the Group's share of expenses that the jointly controlled operations incurred and the Group's share of income earned by the jointly controlled operations.

(iv) Transactions eliminated on consolidation

Intragroup balances and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4 Significant Accounting Policies *(Continued)*

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on the retranslation are recognised in the consolidated income statement.

(ii) Foreign operations

The assets and liabilities of foreign operations outside the PRC, including goodwill and fair value adjustments arising on acquisition, are translated to Renminbi at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Renminbi at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents (comprise cash balances and call deposits), loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through consolidated income statement, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

4 Significant Accounting Policies *(Continued)*

(c) ***Financial instruments*** *(Continued)*

(i) *Non-derivative financial instruments (Continued)*

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy (i)) are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses (see accounting policy (i)).

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) *Compound financial instruments*

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method, unless it is designated at fair value through the consolidated income statement. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

4 Significant Accounting Policies *(Continued)*

(c) *Financial instruments (Continued)*

(iii) *Share capital*

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the consolidated income statement.

(d) *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 (i)). Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated income statement as incurred.

4 Significant Accounting Policies *(Continued)*

(d) Property, plant and equipment (Continued)

(iii) Depreciation

Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Properties	20 – 30 years
Plant and machinery	10 – 15 years
Motor vehicles	5 – 10 years
Furniture and fixtures	5 – 10 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iv) Construction in progress

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

(e) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries and associates. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the consolidated income statement.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

4 Significant Accounting Policies *(Continued)*

(f) *Leased assets*

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

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

(g) *Lease prepayments*

Lease prepayments represent cost of land use rights paid to the PRC land bureau. Land use rights are carried at cost less accumulated amortisation and impairment losses (see accounting policy (i)). Amortisation is charged to the consolidated income statement on a straight-line basis over the respective periods of the rights.

(h) *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 to bring them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) *Impairment*

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individual significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the consolidated income statement.

4 Significant Accounting Policies *(Continued)*

(i) ***Impairment*** *(Continued)*

(i) *Financial assets (Continued)*

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the consolidated income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit 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 assets.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. 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.

4 Significant Accounting Policies *(Continued)*

(j) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Defined contribution plan

Obligations for contributions to defined contribution retirement schemes are recognised as an expense in the consolidated income statement when they are due.

(iii) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(k) Provisions

A provision is recognised if, as a result of a past event, when 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.

(l) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, 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, and there is no continuing management involvement with the goods.

(ii) Government grants

An unconditional government grant is recognised in the consolidated income statement when the grant becomes receivable.

4 Significant Accounting Policies *(Continued)*

(l) ***Revenue recognition*** *(Continued)*

(ii) Government grants (Continued)

Other government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the consolidated income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the consolidated income statement on a systemic basis over the useful life of the asset.

(iii) Rental income

Rental income receivable under operating leases is recognised in the consolidated income statement on a straight-line basis over the term of lease.

(m) ***Lease payments***

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the terms of the leases. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

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.

(n) ***Finance income and expenses***

Interest income is recognised in the consolidated income statement as it accrues using the effective interest method.

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred using the effective interest rate method. The interest expense component of finance lease payments is recognised in the consolidated income statement using the effective interest rate method.

(o) ***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 period in which they are incurred.

4 Significant Accounting Policies *(Continued)*

(p) *Income tax expense*

Income tax expense comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for 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 the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is remeasured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) *Earnings per share*

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(r) *Related parties*

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

4 Significant Accounting Policies *(Continued)*

(r) *Related parties* (Continued)

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(s) *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

5 Determination of Fair Values

A number of Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *Land use rights and property, plant and equipment*

The fair value of land use rights recognised as a result of a business combination is based on market value.

Due to the specialised nature of items of property, plant and equipment acquired through business combinations, the fair value of property, plant and equipment recognised as a result of business combinations is determined using a depreciated replacement cost approach.

(ii) *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

5 Determination of Fair Values *(Continued)*

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purpose, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance lease, the discount rate is determined by reference to the Group's incremental borrowing rate.

(iv) Share-based payment transactions

The fair value of employee stock options is measured using the binomial lattice model. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on historical volatility and expected growth), weighted average expected life of the instruments (based on general option holder behaviour), expected dividends, and the risk-free interest rate (based on the Exchange Fund Notes). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

6 Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

Business segments

The Group comprises the following main business segments:

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

Processed meat products: The processed meat products segment manufactures and distributes processed meat products, such as sausages and hams.

Geographical segment

As the Group mainly operates in the PRC, no geographical segment information is presented.

(Expressed in Renminbi)

6 Segment Reporting *(Continued)*

(a) *Revenue and expenses*

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Total external revenue	**3,306,597**	3,219,024	**1,414,097**	1,234,941	**–**	–	**4,720,694**	4,453,965
Inter-segment revenue	**321,984**	315,911	**–**	–	**(321,984)**	(315,911)	**–**	–
Total segment revenue	**3,628,581**	3,534,935	**1,414,097**	1,234,941	**(321,984)**	(315,911)	**4,720,694**	4,453,965
Segment results	**328,330**	285,583	**284,256**	190,608	**(2,837)**	(3,573)	**609,749**	472,618
Unallocated income and expenses							**(124,723)**	(74,428)
Operating profit							**485,026**	398,190
Net finance income/(costs)							**9,894**	(31,001)
Share of loss of an equity accounted investee	**–**	–	**(1,251)**	(507)	**–**	–	**(1,251)**	(507)
Income tax expenses							**(5,622)**	(7,685)
Profit for the year							**488,047**	358,997
Depreciation and amortisation for the year	**16,640**	13,965	**30,017**	29,123			**46,657**	43,088
Unallocated depreciation and amortisation for the year							**72**	62
							46,729	43,150
Significant non-cash expenses (other than depreciation and amortisation)	**821**	4,566	**1,342**	–			**2,163**	4,566
Unallocated significant non-cash expenses (other than depreciation and amortisation)							**2,373**	–
							4,536	4,566

(Expressed in Renminbi)

6 Segment Reporting *(Continued)*

(b) Assets and liabilities

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**1,309,327**	1,074,314	**1,163,507**	1,011,854	**(196,336)**	(634,507)	**2,276,498**	1,451,661
Investment in an equity accounted investee	**–**	–	**4,004**	5,255	**–**	–	**4,004**	5,255
Unallocated assets							**870,830**	1,399,743
Total assets							**3,151,332**	2,856,659
Segment liabilities	**(332,719)**	(269,527)	**(229,716)**	(656,089)	**189,750**	631,105	**(372,685)**	(294,511)
Unallocated liabilities							**(317,473)**	(320,488)
Total liabilities							**(690,158)**	(614,999)
Capital expenditure incurred during the year	**569,825**	44,382	**202,946**	59,830			**772,771**	104,212
Unallocated capital expenditure incurred during the year							**37**	86
							772,808	104,298

(Expressed in Renminbi)

7 Business Combinations

(a) Henan Yurun Beixu Meat Food Company Limited ("Yurun Beixu")*

On 18 June 2006, the Group acquired a 75% equity interest of Yurun Beixu from an independent third party at a cash consideration of RMB750,000. Details of Yurun Beixu at 31 December 2006 are as follows:

Name of company	Registered capital	Percentage of equity interest acquired	Results contributed by the company from the date of acquisition to 31 December 2006	Principal activities
			RMB'000	
Yurun Beixu 河南雨潤北徐肉類食品有限公司	RMB1,000,000	75%	(4,503)	Slaughtering, production and sale of chilled and frozen meat

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

This entity is a domestic company established in the PRC in 2006. The company had minimal operation before the acquisition by the Group.

(Expressed in Renminbi)

7 Business Combinations *(Continued)*

(a) ***Henan Yurun Beixu Meat Food Company Limited* ("Yurun Beixu")*** *(Continued)*

The acquisition had the following effect on the Group's asset and liabilities:

Acquirees' net assets at the acquisition date

	Recognised value on acquisition	**Fair value adjustment**	**Pre-acquisition carrying amount**
	RMB'000	RMB'000	RMB'000
Lease prepayments	10,289	10,289	–
Property, plant and equipment	43,039	32,787	10,252
Cash and cash equivalents	1,000	–	1,000
	54,328	43,076	11,252
Minority interests	(13,582)		
Net identified assets acquired	40,746		
Negative goodwill arising on acquisition	(39,996)		
	750		
Cash acquired	(1,000)		
Net cash inflow	(250)		

Negative goodwill has arisen on the acquisition of business operations as a result of gain from bargain purchase.

7 Business Combinations *(Continued)*

(b) Badong Heng Xing Meat Product Co., Ltd. (“Badong Heng Xing”)*

On 8 December 2006, the Group acquired the entire business operations of slaughtering, production and sale of chilled and frozen meat together with the relevant assets and liabilities of the Badong Heng Xing in the PRC from independent third parties at a cash consideration of RMB108,848,000. Details of Badong Heng Xing at 31 December 2006 are as follows:

Name of company	Registered capital	Results contributed by the company from date of acquisition to 31 December 2006 RMB’000	Principal activities
Badong Heng Xing 巴東恒興肉類食品有限公司	RMB10,000,000	(622)	Slaughtering, production and sale of chilled and frozen meat

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

If the acquisition had accrued on 1 January 2006, management estimates that consolidated revenue would have been RMB4,729,668,000 and consolidated profit for the year would have been RMB489,714,000.

7 Business Combinations *(Continued)*

(b) Badong Heng Xing Meat Product Co., Ltd.* ("Badong Heng Xing") *(Continued)*

The acquisition had the following effect on the Group's assets and liabilities:

Acquirees' net assets at the acquisition date

	Recognised value on acquisition RMB'000	**Fair value adjustment** RMB'000	**Pre-acquisition carrying amount** RMB'000
Lease prepayments	50,357	4,465	45,892
Property, plant and equipment	50,892	(765)	51,657
Other assets	7,599	58	7,541
Net identified assets acquired	108,848	3,758	105,090
Cash acquired	(714)		
Net cash outflow	108,134		

8 Turnover

The principal activities of the Group are the slaughtering, production and sale of chilled and frozen meat and processed meat products.

Turnover represents the sales 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 rebate.

9 Other Operating Income

	2006 **RMB'000**	2005 RMB'000
Government subsidies	**38,153**	13,922
Recognition of negative goodwill arising on business combination	**39,996**	–
Rental income	**3,199**	2,969
Sales of scrap	**1,749**	1,451
Sundry income	**8,299**	5,026
	91,396	23,368

10 Profit before Income Tax

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

	2006 **RMB'000**	2005 RMB'000
(a) Net finance (income)/costs:		
Interest on bank and other loans wholly repayable within five years	**958**	23,850
Bank charges	**525**	832
Bills discount expenses	**–**	9,040
Reimbursement of bills discount expenses from a related company *(note 37(b)(iv))*	**–**	(9,032)
Amortisation of discounts and transaction costs of the convertible instruments	**–**	19,437
Interest on lease obligation	**12,479**	13,537
Foreign exchange gain	**(1,376)**	(2,890)
Interest income	**(22,480)**	(23,773)
	(9,894)	31,001

10 Profit before Income Tax *(Continued)*

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

		2006 RMB'000	2005 RMB'000
(b)	Personnel expenses:		
	Wages and salaries	**150,102**	101,951
	Contribution to defined contribution schemes	**10,795**	6,353
	Social security contribution	**2,698**	1,588
	Staff welfare	**3,970**	2,082
	Equity-settled share-based payment transactions	**3,498**	–
		171,063	111,974

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 per cent to 22 per cent (2005: 18 per cent to 24 per cent) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2006.

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 HK$20,000. Contributions to the scheme vest immediately.

Save for the above schemes, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

(Expressed in Renminbi)

10 Profit before Income Tax *(Continued)*

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

	2006 RMB'000	2005 RMB'000
(c) Other items:		
Cost of inventories	**3,994,243**	3,814,656
Write down of inventories	**–**	2,688
Impairment losses on trade and other receivables	**7,470**	7,068
Reversal of impairment losses on trade and other receivables	**(6,432)**	(5,190)
Depreciation	**45,495**	42,991
Loss on disposal of property, plant and equipment	**587**	396
Operating lease charges		
– premises	**707**	576
– land use rights	**1,211**	1,245
Amortisation of lease prepayments	**1,234**	159
Research and development expenses	**4,292**	3,501
Auditors' remuneration	**4,243**	3,749

(Expressed in Renminbi)

11 Income Tax Expense

Income tax expense in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax expense		
Current period	**6,733**	7,153
Overprovision in respect of prior year	**(734)**	–
	5,999	7,153
Deferred tax (income)/expense		
Originating and reversal of temporary differences *(note 23(b))*	**(377)**	532
Income tax expense in the consolidated income statement	**5,622**	7,685

(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 2006 and 2005.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a rate of 33 per cent during the year ended 31 December 2006 (2005: 33 per cent), except for the following:

(i) The companies comprising the Group which are foreign invested enterprises in the PRC are entitled to a tax concession period during which they are fully exempted from PRC enterprise income tax for two years starting from their first profit-making year, followed by a 50 per cent reduction in the PRC enterprise income tax for the next three years.

11 Income Tax Expense *(Continued)*

(c) *(Continued)*

(ii) Anhui Furun Meat Processing Co. Ltd. ("Anhui Furun"), was awarded a "State-Level Agricultural Leading Enterprise" by the central government of the PRC in December 2002. Pursuant to Guoshuifa (2001) No. 124, a State-Level Agricultural Leading Enterprise is eligible to full exemption from PRC enterprise income tax. A subsidiary of more than a 50 per cent equity interest owned by a State-Level Agricultural Leading Enterprise is also entitled to exemption of PRC enterprise income tax if it is involved in the primary processing of agricultural products. Subsidiaries of Anhui Furun that satisfied the above conditions were entitled to full exemption from PRC enterprise income tax for the year ended 31 December 2006 since the date they become subsidiaries of Anhui Furun.

(iii) Pursuant to Xinzhengfa (2002) No. 29 and the investment agreement entered into with the Administration Committee of Xinjiang Shihezi Economic and Technological Development Zone ("新疆石河子市經濟技術開發區管委會"), Xinjiang Yurun Food Co., Ltd. ("Xinjiang Yurun") is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for five years starting from its first profit-making year, followed by a reduced PRC enterprise income tax at 15 per cent for the remaining years through 2010.

Reconciliation of effective tax rate

	2006		2005	
	RMB'000	**%**	RMB'000	%
Profit before income tax	**493,669**		366,682	
Income tax using the PRC enterprise income tax rate of 33%	**162,911**	**33.0**	121,005	33.0
Effect of tax rates in foreign jurisdictions	**1,560**	**0.3**	3,688	1.0
Non-deductible expenses	**2,345**	**0.5**	3,362	0.9
Tax exempt profit	**(161,194)**	**(32.7)**	(120,370)	(32.8)
Income tax expense	**5,622**	**1.1**	7,685	2.1

Non-deductible expenses mainly comprise non-deductible portion of salaries, staff welfare expenses, entertainment expenses, penalty and surcharges, and promotion cost for PRC enterprise income tax purposes.

(Expressed in Renminbi)

12 Income Tax Receivables/Payables

Current taxation in the consolidated balance sheet represents:

	The Group	
	2006	2005
	RMB'000	RMB'000
At beginning of the year	**(3,002)**	(20,384)
Provision for PRC enterprise income tax for the year	**(6,733)**	(7,153)
Overprovision in respect of prior year	**734**	–
PRC enterprise income tax paid	**1,664**	24,535
At end of the year	**(7,337)**	(3,002)
Represented by:		
Income tax receivables	**–**	–
Income tax payables	**(7,337)**	(3,002)
	(7,337)	(3,002)

(Expressed in Renminbi)

13 Directors' Remuneration

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

	2006						
	Fees RMB'000	Basic salaries, allowance and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Sub-total RMB'000	Share-based payments (Note) RMB'000	Total RMB'000
Executive directors							
Zhu Yicai	–	362	16	–	378	–	378
Bi Guoxiang	–	362	16	–	378	173	551
Zhang Yuanfei	–	361	16	–	377	460	837
Zhu Yiliang	–	372	16	–	388	435	823
Ge Yuqi	–	361	12	–	373	435	808
Feng Kuande	–	120	5	–	125	435	560
Non-executive directors							
Jiao Shuge	–	–	–	–	–	–	–
Hsu Shang Wi, William	–	–	–	–	–	–	–
Hsu I-Yin, Joyce	–	–	–	–	–	–	–
Liu Yi Lan, Katherine	–	–	–	–	–	–	–
Independent non-executive directors							
Kang Woon	102	–	–	–	102	–	102
Zheng Xueyi	102	–	–	–	102	–	102
Gao Hui	102	–	–	–	102	–	102
Total	306	1,938	81	–	2,325	1,938	4,263

13 Directors' Remuneration *(Continued)*

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

	2005						
	Fees RMB'000	Basic salaries, allowance and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Sub-total RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors							
Zhu Yicai	–	371	4	–	375	–	375
Bi Guoxiang	–	371	4	–	375	–	375
Zhang Yuanfei	–	370	4	–	374	–	374
Zhu Yiliang	–	381	4	–	385	–	385
Ge Yuqi	–	209	4	–	213	–	213
Feng Kuande	–	109	4	–	113	–	113
Non-executive directors							
Jiao Shuge	–	–	–	–	–	–	–
Hsu Shang Wi, William	–	–	–	–	–	–	–
Hsu I-Yin, Joyce	–	–	–	–	–	–	–
Independent non-executive directors							
Kang Woon	26	–	–	–	26	–	26
Zheng Xueyi	26	–	–	–	26	–	26
Gao Hui	26	–	–	–	26	–	26
Total	78	1,811	24	–	1,913	–	1,913

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 is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4(j)(iii).

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the Report of the Directors and note 32.

14 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2005: four) are directors whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining one individual (2005: one) are as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	**1,176**	913
Contributions to retirement benefit schemes	**12**	3
Share-based payments	**435**	–
	1,623	916

The emoluments of the individual with the highest emoluments are within the band of HK$1,000,001 to HK$1,500,000 (2005: HK$Nil to HK$1,000,000).

15 Profit attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of RMB167,090,000 (2005: RMB87,045,000) which has been dealt with in the financial statements of the Company.

16 Dividends

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

	2006 RMB'000	2005 RMB'000
Interim dividend declared and paid of HK$0.042 (approximate to RMB0.043) per share (2005: Nil)	**62,043**	–
Final dividend proposed after the balance sheet date of HK$0.042 (approximate to RMB0.042) per share (2005: HK$0.065)	**60,982**	98,152
	123,025	98,152

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

16 Dividends *(Continued)*

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year

	2006 **RMB'000**	2005 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.065 (approximate to RMB0.068) per share (2005: Nil)	**98,152**	–

17 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company for the year of RMB489,173,000 (2005: RMB358,997,000) and the weighted average number of 1,451,953,000 (2005: 1,043,923,000) shares in issue during the year.

(b) Diluted earnings per share

The share options granted under share option scheme are anti-dilutive and therefore excluded in calculating diluted earnings per share for the year ended 31 December 2006. As a result, basic earnings per share and diluted earnings per share are the same.

There were no dilutive potential ordinary shares as at 31 December 2005.

18 Property, Plant and Equipment

The Group

	Properties	Plant and machinery	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2005	408,854	305,037	31,832	12,909	29,590	788,222
Deemed appropriations to equity owners of the Predecessor Entities *(note 34(i))*	(408,835)	(28,246)	(109)	(1,592)	(14,823)	(453,605)
Acquisitions through finance lease	408,835	28,246	109	1,592	–	438,782
Other acquisitions	507	20,066	4,215	3,469	76,041	104,298
Transfers	1,525	2,391	8	102	(4,026)	–
Disposals	–	(1,060)	(1,257)	(144)	–	(2,461)
At 31 December 2005	410,886	326,434	34,798	16,336	86,782	875,236
At 1 January 2006	410,886	326,434	34,798	16,336	86,782	875,236
Acquisitions through business combinations *(note 7)*	74,934	18,704	–	–	293	93,931
Additions through acquisitions of Predecessor Entities *(note 37(f))*	–	–	–	–	14,301	14,301
Other acquisitions	6,569	42,549	5,519	10,310	221,230	286,177
Transfers	156,901	70,571	53	655	(228,180)	–
Disposals	(490)	(2,248)	(4,671)	(519)	–	(7,928)
At 31 December 2006	648,800	456,010	35,699	26,782	94,426	1,261,717

18 Property, Plant and Equipment *(Continued)*

The Group (Continued)

	Properties RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation:						
At 1 January 2005	133,396	90,058	16,165	6,532	–	246,151
Deemed appropriations to equity owners of the Predecessor Entities *(note 34(i))*	(133,557)	(14,665)	(7)	(414)	–	(148,643)
Acquisitions through finance lease	133,557	14,665	7	414	–	148,643
Depreciation charge for the year	13,972	24,439	2,490	2,090	–	42,991
Disposals	–	(604)	(748)	(119)	–	(1,471)
At 31 December 2005	147,368	113,893	17,907	8,503	–	287,671
At 1 January 2006	147,368	113,893	17,907	8,503	–	287,671
Depreciation charge for the year	14,413	25,853	2,653	2,576	–	45,495
Disposals	(91)	(1,538)	(3,459)	(252)	–	(5,340)
At 31 December 2006	161,690	138,208	17,101	10,827	–	327,826
Net book value:						
At 31 December 2006	487,110	317,802	18,598	15,955	94,426	933,891
At 31 December 2005	263,518	212,541	16,891	7,833	86,782	587,565

All properties are located in the PRC.

Property certificates of certain properties with an aggregate net book value of RMB3,808,000 (2005: RMB3,622,000) at 31 December 2006 are yet to be obtained.

Pursuant to the respective investment agreements entered into with the local government authorities, certain property, plant and equipment with an aggregate net book value of RMB35,567,000 (2005: RMB51,801,000) at 31 December 2006, are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

18 Property, Plant and Equipment *(Continued)*

***The Group** (Continued)*

Certain properties with an aggregate net book value of RMB12,832,000 were pledged against bank loans of the Predecessor Entities totalling RMB20,000,000 as at 31 December 2005. There were no properties pledged against bank loans of the Predecessor Entities as at 31 December 2006.

Leased property, plant and equipment

Pursuant to the Reorganisation, certain property, plant and equipment owned by the Predecessor Entities with an aggregate net book value totalling RMB290,139,000 were not transferred to the Group but were leased to the Group under finance leases effected during the year ended 31 December 2005. In addition, certain construction in progress owned by the Predecessor Entities with an aggregate net book value totalling RMB14,823,000 was not transferred to the Group pursuant to the Reorganisation and was reflected as appropriations to equity owners of the Predecessor Entities for the year ended 31 December 2005. The Predecessor Entities granted an option in favour of the Group to purchase the land use rights (note 19) 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.

The Group exercised the option to acquire certain leased property, plant and equipment and land use rights during the year through the acquisition of Predecessor Entities. Details are disclosed in note 37(f). At 31 December 2006, the net carrying amount of leased property, plant and equipment was RMB158,163,000 (2005: RMB256,103,000).

Change in estimates

Effective from 1 July 2005, the Group revised its estimate of residual value from 5% to 10%. The change had the effect of decreasing depreciation expense by approximate RMB2,000,000 for the period from 1 July 2005 to 31 December 2005 and is expected to decrease depreciation expense by approximate RMB3,400,000 for each subsequent year until the assets are fully depreciated.

19 Lease Prepayments

The lease prepayments represent cost of the land use rights in respect of land located in the PRC. The remaining period of the land use rights of the Group ranges from 45 to 49 years.

At 31 December 2006, pursuant to the respective investment agreements entered into with the local government authorities and the Group, certain land use rights with an aggregate net book value of RMB751,000 (2005: RMB767,000) are restricted from disposal unless prior approval has been obtained from the respective local government authorities.

19 Lease Prepayments *(Continued)*

Pursuant to the Reorganisation, certain land use rights owned by the Predecessor Entities with an aggregate net book value of RMB195,635,000 were not transferred to the Group but were leased to the Group under operating leases effected during the year ended 31 December 2005. The unamortised balance of the land use rights of the Predecessor Entities that were not transferred to the Group was reflected as appropriations to equity owners of the Predecessor Entities.

20 Investments in Subsidiaries

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**688,260**	717,263

Details of the subsidiaries at 31 December 2006 are as follows:

Name of company *(note (iv))*	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company: Direct %	Attributable equity interest held by the Company: Indirect %	Principal activity
Key World Industrial Limited ("Key World")	BVI	US$1,147/ US$50,000	100	–	Investment holding
Greatfield Industrial Limited	BVI	US$1/ US$50,000	–	100	Investment holding
Top Season Industries Limited	BVI	US$1/ US$50,000	–	100	Investment holding
Best Fiscal International Limited	Hong Kong	HK$1/ HK$10,000	–	100	Investment holding
Success Grand Investments Limited	Hong Kong	HK$1/ HK$10,000	–	100	Investment holding

(Expressed in Renminbi)

20 Investments in Subsidiaries *(Continued)*

Details of the subsidiaries at 31 December 2006 are as follows: *(Continued)*

Name of company *(note (iv))*	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activity
Anhui Furun *(note (iii))* 安徽省福潤肉類加工有限公司	PRC	RMB200,000,000/ RMB200,000,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Badong Heng Xing *(note (iii))* 巴東恒興肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Fuyang Furun Meat Processing Co., Ltd. ("Fuyang Furun") *(note (i))* 阜陽福潤肉類加工有限公司	PRC	US$29,000,000/ US$29,000,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Handan Wanrun Food Co., Ltd. *(note (i))* 邯鄲萬潤肉類加工有限公司	PRC	US$1,500,000/ US$1,500,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Harbin Popular Fresh Food Co., Ltd. *(note (ii))* 哈爾濱大眾肉聯生鮮有限公司	PRC	US$3,000,000/ US$3,000,000	–	93.3	Slaughtering, production and sale of chilled and frozen meat
Yurun Beixu *(note (iii))* 河南雨潤北徐肉類食品有限公司	PRC	RMB1,000,000/ RMB1,000,000	–	75	Slaughtering, production and sale of chilled and frozen meat
Jinan Wanrun Meat Processing Co., Ltd. *(note (iii))* 濟南萬潤肉類加工有限公司	PRC	RMB5,000,000/ RMB5,000,000	–	100	Slaughtering, production and sale of chilled and frozen meat

(Expressed in Renminbi)

20 Investments in Subsidiaries *(Continued)*

Details of the subsidiaries at 31 December 2006 are as follows: *(Continued)*

Name of company *(note (iv))*	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Kaifeng Wanrun Food Co., Ltd. *(note (i))* 開封萬潤肉類加工有限公司	PRC	US$1,500,000/ US$1,500,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Kaiyuan Wanrun Food Co., Ltd. *(note (i))* 開原萬潤肉類加工有限公司	PRC	US$2,000,000/ US$2,000,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Lianyungang Furun Food Co., Ltd. *(note (ii))* 連雲港福潤食品有限公司	PRC	US$29,500,000/ US$29,500,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Neijiang Furun Food Co., Ltd. *(note (i))* 內江福潤肉類加工有限公司	PRC	US$4,000,000/ US$4,000,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Suzhou Wanrun Meat Processing Co., Ltd. *(note (i))* 宿州萬潤肉類加工有限公司	PRC	US$3,000,000/ US$3,000,000	–	100	Slaughtering, production and sale of chilled and frozen meat
Beijing Yurun Meat Co., Ltd. *(note (i))* 北京雨潤肉類加工有限公司	PRC	US$2,000,000/ US$2,000,000	–	100	Production and sale of processed meat products
Fuyang Yurun Meat Processing Co., Ltd. *(note (i))* 阜陽雨潤肉類加工有限公司	PRC	US$2,000,000/ US$2,000,000	–	100	Production and sale of processed meat products

(Expressed in Renminbi)

20 Investments in Subsidiaries *(Continued)*

Details of the subsidiaries at 31 December 2006 are as follows: *(Continued)*

Name of company *(note (iv))*	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activity
Gansu Yurun Food Co., Ltd. *(note (i))* 甘肅雨潤肉類加工有限公司	PRC	US$1,000,000/ US$1,000,000	–	100	Production and sale of processed meat products
Guangzhou Yurun Meat Food Co., Ltd. *(note (i))* 廣州雨潤肉類食品有限公司	PRC	US$2,500,000/ US$2,500,000	–	100	Production and sale of processed meat products
Harbin Popular Meat Product Co., Ltd. *(note (ii))* 哈爾濱大眾肉聯製品有限公司	PRC	US$4,000,000/ US$4,000,000	–	92.5	Production and sale of processed meat products
Kaiyuan People Food Co., Ltd. *(note (i))* 開原大眾肉類加工有限公司	PRC	US$1,000,000/ US$1,000,000	–	100	Production and sale of processed meat products
Nanjing Yurun Food Co., Ltd. *(note (i))* 南京雨潤食品有限公司	PRC	US$90,000,000/ US$90,000,000	–	100	Production and sale of processed meat products
Neijiang Yurun Food Co., Ltd. *(note (i))* 內江雨潤肉類加工有限公司	PRC	US$1,500,000/ US$1,500,000	–	100	Production and sale of processed meat products
Xinjiang Yurun *(note (iii))* 新疆雨潤	PRC	RMB5,000,000/ RMB5,000,000	–	100	Production and sale of processed meat products

(Expressed in Renminbi)

20 Investments in Subsidiaries *(Continued)*

Details of the subsidiaries at 31 December 2006 are as follows: *(Continued)*

Name of company *(note (iv))*	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activity
Guangyuan Furun Meat Product Co., Ltd. ("Guangyuan Furun") *(note (iii))* 廣元福潤肉類食品有限公司	PRC	RMB5,000,000/ RMB5,000,000	–	100	Property holding
Handan Furun Meat Product Co., Ltd. ("Handan Furun") *(note (iii))* 邯鄲市福潤肉類食品有限公司	PRC	RMB5,000,000/ RMB5,000,000	–	100	Property holding
Kaifeng Furun Meat Product Co., Ltd. ("Kaifeng Furun") *(note (iii))* 開封福潤肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	–	100	Property holding
Kaiyuan Furun Meat Product Co., Ltd. ("Kaiyuan Furun") *(note (iii))* 開原市福潤肉類食品有限公司	PRC	RMB10,000,000/ RMB10,000,000	–	100	Property holding
Sichuan Furun Meat Product Co., Ltd. ("Sichuan Furun") *(note (iii))* 四川省福潤肉類食品有限公司	PRC	RMB20,000,000/ RMB20,000,000	–	100	Property holding
Suzhou Furun Meat Product Co., Ltd. ("Suzhou Furun") *(note (iii))* 宿州福潤肉類食品有限公司	PRC	RMB106,000,000/ RMB106,000,000	–	100	Property holding
Changchun Yurun Food Co., Ltd. *(note (iii))* 長春雨潤食品有限公司	PRC	RMB5,000,000/ RMB5,000,000	–	100	Business operation not yet commenced

(Expressed in Renminbi)

20 Investments in Subsidiaries *(Continued)*

Details of the subsidiaries at 31 December 2006 are as follows: *(Continued)*

Name of company *(note (iv))*	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activity
Dangtu Yurun Food Co., Ltd. *(note (i))* 當涂雨潤食品有限公司	PRC	US$1,000,000/ US$1,000,000	–	100	Business operation not yet commenced
Jiangsu Wanrun Meat Processing Co., Ltd. *(note (iii))* 江蘇萬潤肉類加工有限公司	PRC	RMB5,000,000/ RMB5,000,000	–	100	Business operation not yet commenced
Jinzhou Furun Food Co., Ltd. *(note (iii))* 錦州福潤食品有限公司	PRC	RMB2,000,000/ RMB2,000,000	–	100	Business operation not yet commenced
Liangyungang Yurun Food Co., Ltd. *(note (i))* 連雲港雨潤食品有限公司	PRC	US$20,000,000/ US$20,000,000	–	100	Business operation not yet commenced
Maán Shan Yurun Food Co., Ltd. *(note (i))* 馬鞍山雨潤食品有限公司	PRC	US$25,000,000/ US$25,000,000	–	100	Business operation not yet commenced
Shenyang Yurun Food Co., Ltd. *(note (i))* 瀋陽雨潤食品有限公司	PRC	US$5,000,000/ US$5,000,000	–	100	Business operation not yet commenced
Shenyang Furun Food Co., Ltd. *(note (i))* 瀋陽福潤肉類加工有限公司	PRC	US$9,887,711/ US$10,000,000	–	100	Business operation not yet commenced

20 Investments in Subsidiaries *(Continued)*

Details of the subsidiaries at 31 December 2006 are as follows: *(Continued)*

Notes:

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

(ii) These entities established in the PRC are sino foreign joint-venture companies.

(iii) These entities established in the PRC are domestic limited liability companies.

(iv) The English translation of the company names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

All of these are controlled subsidiaries as defined under note 4(a)(i) and have been consolidated into the consolidated financial statements.

21 Investment in an Equity Accounted Investee

	The Group	
	2006	2005
	RMB'000	RMB'000
Share of net assets	**4,004**	5,255

Details of the equity accounted investee at 31 December 2006 are as follows:

Name of company	**Place of establishment and operation**	**Registered capital**	**Attributable equity interest indirectly held by the Group**	**Principal activities**
Itoham Foods Beijing Co., Ltd. ("Itoham") 伊藤食品(北京)有限公司	PRC	US$2,800,000	25%	Production and sale of processed meat products

21 Investment in an Equity Accounted Investee *(Continued)*

Summary financial information on the equity accounted investee

	Assets RMB'000	**Liabilities** RMB'000	**Equity** RMB'000	**Revenue** RMB'000	**Loss** RMB'000
2006					
100 per cent	16,200	185	16,015	3,236	(5,002)
Group's effective interest	4,050	46	4,004	809	(1,251)
2005					
100 per cent	21,701	683	21,018	331	(2,027)
Group's effective interest	5,426	171	5,255	83	(507)

The equity accounted investee established in the PRC is a sino foreign joint-venture enterprise.

22 Non-current Prepayments

		The Group	
	Note	**2006** **RMB'000**	2005 RMB'000
Prepayments for acquisitions of property, plant and equipment		**46,123**	–
Prepayments for business acquisitions	38	**70,793**	–
		116,916	–

23 Deferred Tax Assets and Liabilities

(a) *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities at 31 December 2006 are attributable to the following:

The Group

	Assets		Liabilities		Net	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Property, plant and equipment	**16,848**	14,171	**(977)**	(1,195)	**15,871**	12,976
Impairment loss on trade and other receivables	**2,631**	7,441	**–**	–	**2,631**	7,441
Accrued expenses	**–**	–	**(1,054)**	(2,320)	**(1,054)**	(2,320)
Total deferred tax assets/(liabilities)	**19,479**	21,612	**(2,031)**	(3,515)	**17,448**	18,097
Set off of tax under the same tax jurisdiction	**(1,083)**	(2,320)	**1,083**	2,320	**–**	–
Net deferred tax assets	**18,396**	19,292	**(948)**	(1,195)	**17,448**	18,097

23 Deferred Tax Assets and Liabilities *(Continued)*

(b) *Movements in temporary differences*

Movements in temporary differences during the year are as follows:

The Group

	At 1 January 2005 RMB'000	Recognised in reserve RMB'000	Recognised in income RMB'000	At 31 December 2005 RMB'000	Recognised in reserve RMB'000	Recognised in income RMB'000	At 31 December 2006 RMB'000
Property, plant and equipment	2,199	10,777	–	12,976	(1,023)	3,918	15,871
Lease prepayments	2,015	(2,015)	–	–	–	–	–
Impairment loss on trade and other receivables	7,620	353	(532)	7,441	(3)	(4,807)	2,631
Accrued expenses	(1,722)	(598)	–	(2,320)	–	1,266	(1,054)
Pre-operating expenses written off	266	(266)	–	–	–	–	–
Unused tax loss	774	(774)	–	–	–	–	–
Total	11,152	7,477	(532)	18,097	(1,026)	377	17,448

24 Inventories

	The Group	
	2006 RMB'000	2005 RMB'000
Raw materials	**103,682**	102,235
Work in progress	**29,618**	28,216
Finished goods	**380,622**	286,698
	513,922	417,149

As at 31 December 2005, inventories with a carrying value of RMB50,059,000 were stated at fair value less costs to sell. There are no inventories stated at fair value less costs to sell as at 31 December 2006.

25 Other Investments

	The Group	
	2006	2005
	RMB'000	RMB'000
Current assets		
Available-for-sale financial assets	**2,000**	–

26 Trade and Other Receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables *(note 26(a))*	**322,763**	325,614	**–**	–
Bills receivable *(note 26(b))*	**30**	1,091	**–**	–
Value-added tax recoverable	**107,817**	72,391	**–**	–
Deposits and prepayments	**37,076**	29,500	**335**	316
Others	**24,425**	19,135	**–**	207
	492,111	447,731	**335**	523

All of the trade and other receivables are expected to be recovered within one year. As at 31 December 2006, amounts due from related companies of RMB895,000 (2005: RMB5,724,000) are included in trade receivables (note 37(c)).

(Expressed in Renminbi)

26 Trade and Other Receivables *(Continued)*

(a) ***Trade receivables***

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 30 days	**209,434**	216,024
31 days to 90 days	**89,565**	80,897
91 days to 180 days	**15,741**	23,725
Over 180 days	**8,023**	4,968
	322,763	325,614

The Group normally allows a credit period ranging from 30 days to 90 days to its customers.

(b) ***Bills receivable***

An ageing analysis of the bills receivable of the Group is analysed as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 30 days	**30**	–
31 days to 60 days	**–**	–
61 days to 90 days	**–**	502
Over 90 days	**–**	589
	30	1,091

(Expressed in Renminbi)

27 Cash and Cash Equivalents

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**843,956**	1,355,536	**19,835**	375,866

The effective interest rate on call deposits in 2006 was 3.63 percent (2005: 3.94 percent).

28 Bank and Other Loans

	The Group	
	2006	2005
	RMB'000	RMB'000
Guaranteed bank loans denominated in RMB due within one year *(note 37(b)(iii)):*		
Fixed interest rate at 6.63% p.a.	**28,000**	–
Variable interest rate at prevailing market rate	**15,000**	–
	43,000	–
Unsecured bank loan denominated in RMB due within one year:		
Fixed interest rate at 5.58% p.a.	**–**	20,000
	43,000	20,000

Historically the Predecessor Entities obtained certain borrowings from banks and bills payable (note 31(a)) and on-lent part of the proceeds to related companies of which the principal activities are non-food operations. Pursuant to the Reorganisation, the Predecessor Entities have obtained the consents of the relevant banks to the disposition of the food operations together with the selected assets and liabilities to the companies comprising the Group. Pursuant to PRC Laws, the bank borrowings totalling RMB835,400,000 were not included in the liabilities to be assumed by the companies comprising the Group after the Reorganisation and accordingly were derecognised effective from the date of consents obtained from the banks during the year ended 31 December 2005.

29 Convertible Instruments

	The Group 2005 RMB'000	The Company 2005 RMB'000
Carrying amount as at 1 January	117,772	–
Transaction costs amortised	156	–
Discount on convertible instruments amortised	19,281	–
Foreign exchange translation	(2,893)	–
Transfer from Key World to the Company	–	134,316
Conversion into shares of the Company	(134,316)	(134,316)
Carrying amount of liability at 31 December	–	–

On 20 December 2004, Key World issued convertible instruments (the "Convertible Instruments") for an aggregate principal amount of US$30,000,000 (equivalent to approximately RMB247,923,000) to two independent parties (the "Holders") who are entitled to interest payable simultaneously with any payment of dividends to the holders of the ordinary shares of Key World on an as if converted basis. The outstanding principal amount of the Convertible Instruments shall convert into such number of ordinary shares of Key World at a conversion price equal to approximately US$2,043.74 (equivalent to RMB16,890) per share (the "Conversion Price"). Pursuant to the terms of the Convertible Instruments, the Conversion Price is subject to adjustment under certain conditions and the Holders could elect to redeem the Convertible Instruments at a predefined rate if certain conditions occur.

On the maturity date, 20 December 2009, Key World is required to redeem all Convertible Instruments at the principal amount (plus accrued interest due and payable) if not already converted by that date. The Convertible Instruments were secured by the shares of Key World and guaranteed by Mr Zhu Yicai and Ms Wu Xueqin, beneficial owners of the Company.

The values of the liability component and equity component of the Convertible Instruments were valued by an independent firm of surveyors, Vigers Appraisal & Consulting Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors, based on the discounted cash flow method at the issuance of the Convertible Instruments.

On 10 September 2005, the Holders transferred the Convertible Instruments in an outstanding amount of US$30,000,000 to the Company in consideration of the Company issuing the new convertible instruments in an amount of US$30,000,000 (the "New Convertible Instruments") to the Holders.

On 10 September 2005, the entire Convertible Instruments held by the Company were converted into 14,679 ordinary shares of Key World.

On 3 October 2005, the entire New Convertible Instruments were converted into 134,312,850 ordinary shares of the Company.

(Expressed in Renminbi)

30 Finance Lease Liabilities

Finance lease liabilities are payable as follows:

	The Group					
	2006			2005		
	Total minimum lease payments RMB'000	**Interest expense relating to future periods RMB'000**	**Present value of the minimum lease payments RMB'000**	Total minimum lease payments RMB'000	Interest expense relating to future periods RMB'000	Present value of the minimum lease payments RMB'000
Less than one year	**7,993**	**7,477**	**516**	14,385	13,498	887
Between one and five years	**31,442**	**29,157**	**2,285**	57,540	53,557	3,983
More than five years	**290,898**	**105,518**	**185,380**	688,767	404,346	284,421
	322,340	**134,675**	**187,665**	746,307	457,903	288,404
Total finance lease obligations	**330,333**	**142,152**	**188,181**	760,692	471,401	289,291

31 Trade and Other Payables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables *(note 31(a))*	**212,293**	146,130	**–**	–
Bills payable *(note 31(a))*	**250**	–	**–**	–
Receipts in advance	**44,230**	44,714	**–**	–
Other payables and accruals	**121,184**	110,667	**4,284**	6,650
	377,957	301,511	**4,284**	6,650

Included in trade payables at 31 December 2006 were amounts due to related companies of RMB3,734,000 (2005: RMB5,092,000) *(note 37(d))*.

(a) Trade payables and bills payable

An ageing analysis of trade payables and bills payable is set out below:

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 30 days	**157,481**	91,064
31 days to 90 days	**31,115**	37,145
91 days to 180 days	**10,781**	6,702
Over 180 days	**13,166**	11,219
	212,543	146,130

As at 31 December 2006, bank deposits totalling RMB250,000 (2005: RMB23,364,000) were pledged to banks to secure the letters of credit and bills facilities. Saved as disclosed in note 28, bills payable totalling RMB307,280,000 would not be included in the liabilities assumed by the Group and accordingly were derecognised effective from the date of consents obtained from the banks during the year ended 31 December 2005.

(Expressed in Renminbi)

32 Share-Based Payments

On 10 September 2005, the Group established a share option scheme that entitles key management personnel and senior employees to purchase shares in the Company. On 10 November 2006, the Group granted 40,250,000 options to directors, senior management and key employees. Each option gives the holders the right to subscribe for one ordinary share in the Company.

(a) *The term and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:*

	Number of options '000
Options granted to	
– directors	22,300
– senior management	6,100
– key employees	11,850
Total	40,250

The options have a contractual life of ten years. Options granted are subjected to a vesting scale in tranches of 25% each per annum starting from 2008 after announcement of results for the previous year.

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

	Weighted average exercise price	Number of options '000
Granted during the period	HK$7.46	40,250
Forfeited during the period	HK$7.46	(200)
Outstanding at the year end	HK$7.46	40,050
Exercisable at the year end		–

The options outstanding at 31 December 2006 had an exercise price of HK$7.46 and a remaining life of 9.86 years.

32 Share-Based Payments *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model. Expectation of early exercise is incorporated into the binomial lattice model.

Fair value of share options and assumptions	**2006**
Fair value at grant date	HK$58,978,000
Share price at grant date	HK$7.23
Exercise price	HK$7.46
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	45%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividend yield	1%
Risk free rate (based on the yield of Exchange Fund Notes at the grant date)	3.854%

(Expressed in Renminbi)

33 Share Capital

(a) Authorised and issued share capital

	Note	2006 Number of shares Ordinary shares (thousand)	2006 Amount RMB'000	2005 Number of shares Preferred shares (thousand)	2005 Number of shares Ordinary shares (thousand)	2005 Total (thousand)	2005 Amount RMB'000
Authorised:							
At 1 January		**3,000,000**	**312,000**	–	–	–	–
Ordinary shares of HK$0.1 each at incorporation of 29 March 2005	(i)	**–**	**–**	–	1,000	1,000	104
Increase in authorised share capital	(ii)	**–**	**–**	166,841	2,832,159	2,999,000	311,896
Re-designation	(v)	**–**	**–**	(166,841)	166,841	–	–
At 31 December		**3,000,000**	**312,000**	–	3,000,000	3,000,000	312,000
Issued:							
At 1 January		**1,451,953**	**151,003**	–	–	–	–
Share issued after incorporation	(i)	**–**	**–**	–	1,000	1,000	–
Issuance of new shares pursuant to the Reorganisation	(ii)	**–**	**–**	166,841	747,159	914,000	95,160
Issuance of new shares upon conversion of New Convertible Instruments	(iii)	**–**	**–**	–	134,313	134,313	13,968
Issuance of new shares by global offering	(iv)	**–**	**–**	–	402,640	402,640	41,875
Re-designation	(v)	**–**	**–**	(166,841)	166,841	–	–
At 31 December		**1,451,953**	**151,003**	–	1,451,953	1,451,953	151,003

33 Share Capital *(Continued)*

(a) *Authorised and issued share capital* (Continued)

Notes:

(i) The Company was incorporated in Bermuda on 21 March 2005. On 29 March 2005, 1,000,000 ordinary shares at a par value of HK$0.1 each ("Ordinary Shares") were issued and allotted nil-paid to Willie Holdings Limited.

(ii) Pursuant to the written resolutions of the sole shareholder of the Company passed on 10 September 2005, as part of the Reorganisation, the Company increased the authorised share capital from HK$100,000 to HK$300,000,000 by the creation of an additional 2,832,158,900 Ordinary Shares and 166,841,100 preference shares at a par value of HK$0.1 each ("Preference Shares"). On the same date, the Company allotted and issued, credited as fully paid a total of 747,158,900 Ordinary Shares and 166,841,100 Preference Shares; and credited as fully paid at par the 1,000,000 nil-paid Ordinary Shares as consideration for the acquisition of the entire share capital of Key World and became the holding company of the Group.

(iii) Pursuant to the written resolution of the Board of Directors passed on 26 September 2005, 134,312,850 Ordinary Shares of the Company were issued on 3 October 2005 on the conversion of the New Convertible Instruments with total carrying values of RMB262,787,000 made up as follows:

	RMB'000
Liability component *(note 29)*	134,316
Equity component *(note 34)*	128,471
	262,787

(iv) On 3 October 2005, 349,770,950 additional Ordinary Shares were issued and offered for subscription at a price of HK$3.7 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. On 26 October 2005, an additional 52,868,850 Ordinary Shares were issued and offered for subscription under the over-allotment option. The proceeds of HK$40,264,000 (equivalent to RMB41,875,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$1,449,503,000 (equivalent to RMB1,507,483,000), before the share issue expenses of RMB112,005,000, were credited to the share premium account.

(v) On 3 October 2005, all issued Preference Shares were re-designated to Ordinary Shares.

33 Share Capital *(Continued)*

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

Exercise period	Exercise price	2006 Number '000
After the result announcement for the year ending 31 December 2007 to 9 November 2016	HK$7.46	10,012
After the result announcement for the year ending 31 December 2008 to 9 November 2016	HK$7.46	10,013
After the result announcement for the year ending 31 December 2009 to 9 November 2016	HK$7.46	10,012
After the result announcement for the year ending 31 December 2010 to 9 November 2016	HK$7.46	10,013
		40,050

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

34 Reserves

(a) The Company

	Note	Share premium (note 34(b)) RMB'000	Contributed surplus (note 34(g)) RMB'000	New convertible instruments reserve (note 34(e)) RMB'000	Exchange Reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 21 March 2005 (date of incorporation)		–	–	–	–	–	–
Issuance of New Convertible Instruments	29	–	–	128,471	–	–	128,471
Issuance of new shares pursuant to the Reorganisation	33(a)(ii)	49,461	309,854	–	–	–	359,315
Issuance of new shares upon conversion of New Convertible Instruments	33(a)(iii)	248,819	–	(128,471)	–	–	120,348
Issuance of new shares by global offering	33(a)(iv)	1,507,483	–	–	–	–	1,507,483
Share issue expenses		(112,005)	–	–	–	–	(112,005)
Profit for the year		–	–	–	–	87,045	87,045
		1,693,758	309,854	–	–	87,045	2,090,657
At 1 January 2006		1,693,758	309,854	–	–	87,045	2,090,657
Foreign currency translation		–	–	–	(81,244)	–	(81,244)
Profit for the year		–	–	–	–	167,090	167,090
Share based payments	32	–	–	–	–	3,498	3,498
Dividends approved during the year	16	–	–	–	–	(160,195)	(160,195)
At 31 December 2006		1,693,758	309,854	–	(81,244)	97,438	2,019,806

(b) Share premium

Under the Companies Act 1981 of Bermuda, 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.

34 Reserves *(Continued)*

(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 assets of Predecessor Entities acquired over the consideration given. This reserve is distributable.

(e) Convertible instruments reserve/new convertible instruments reserve

Convertible instruments reserve and new convertible instruments reserve comprise the value of the options granted to instrument holders to convert their convertible instruments into ordinary shares of Key World and the Company respectively *(note 29)*.

(f) 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 board of directors.

(i) Statutory surplus reserve

The domestic companies in the PRC are required to transfer ten per cent 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 per cent of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

(ii) Statutory public welfare fund

Under the revision of the PRC Company Law in 2006, domestic companies with limited liabilities and companies limited by shares in the PRC are no longer required by law to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006. The relevant transitional treatment of the statutory public welfare fund is provided in "Notice on accounting issues relating to the implementation of the Company Law of the PRC" issued by the Ministry of Finance of the PRC on 15 March 2006. Pursuant to the notice, the balance of RMB186,000 of the statutory public welfare fund as at 31 December 2005 were transferred to the statutory surplus reserve. The notice applied to all the Group's companies established in PRC with limited liabilities and took effect on 1 April 2006.

34 Reserves *(Continued)*

(f) ***PRC statutory reserves*** *(Continued)*

(iii) *Statutory general reserve*

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

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 per cent of the registered capital.

(g) ***Contributed surplus***

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

(h) ***Distributable reserves***

In addition to retained profits, under the Companies Act of Bermuda, 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 2006, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB326,048,000 (2005: RMB396,899,000).

34 Reserves *(Continued)*

(i) ***Deemed appropriations to equity owners***

Pursuant to the Reorganisation, the following assets and liabilities of the Predecessor Entities were not transferred to the Group and were reflected as deemed distributions to the then equity owners in the consolidated statement of changes in equity for the year ended 31 December 2005.

	Year ended 31 December 2005 RMB'000
Property, plant and equipment	304,962
Lease prepayments	195,635
Net current assets	268,046
Bank and other loans	(228,000)
	540,643

35 Financial Instruments

Exposure to natural, liquidity, credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) ***Natural risk***

The Group is engaged in slaughtering, production and sale of chilled and frozen meat and processed meat product. An occurrence of serious animal diseases, such as foot-and-mouth disease, or any outbreak of other epidemics in the PRC affecting animals or humans might result in material disruptions to the Group's operations and turnover.

(b) ***Liquidity risk***

The Group actively manages its debt maturity profile and operating cash flows whilst ensuring that funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

(c) ***Credit risk***

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

There were no significant concentrations of credit risk at 31 December 2006 and 2005. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

35 Financial Instruments *(Continued)*

(d) *Interest rate risk*

The interest rates and terms of repayment of bank and other outstanding loans are disclosed in note 28.

The Group's variable-value borrowings reprice every month. Except for the variable-value borrowings, the financial assets and liabilities as at 31 December 2006 are not repriceable. All financial assets and liabilities as at 31 December 2005 are not repriceable.

(e) *Foreign currency risk*

Substantially all the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China ("PBOC"). During the year ended 31 December 2005, the exchange rate regime was reformed by moving into a managed floating exchange regime based on the market supply and demand with reference to a basket of foreign currencies from unified controlled exchange rate. However, it does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign 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.

Included in assets and liabilities are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
United States Dollars:				
Current assets	**151**	107	**–**	–
Current liabilities	**(381)**	(57)	**(1)**	(57)
	(230)	50	**(1)**	(57)

(f) *Fair value*

The fair values of cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amounts due from/to related parties and other loans are not materially different from their carrying amounts.

35 Financial Instruments *(Continued)*

(f) ***Fair value*** *(Continued)*

The carrying values of pledged deposits, short-term deposits and short-term bank and other loans are estimated to approximate to their fair values based on the nature or short-term maturity of these instruments.

The fair value of the Group's finance lease liabilities is estimated by applying a discounted cash flow using the Group's financing interest rate is as follow:

	At 31 December	
	2006	2005
	RMB'000	RMB'000
Carrying amount	**188,181**	289,291
Fair value	**193,219**	289,291

The interest rate used to estimate the fair value of financial instruments above is based on the Group's financing interest rate. The interest rate used is as follows:

	2006	2005
Loans and borrowings	**5.43%**	4.66%

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.

36 Commitments

(a) Operating leases

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

	2006 **RMB'000**	2005 RMB'000
Within 1 year	**642**	247
After 1 year but within 5 years	**237**	–
	879	247

The Group leased a number of properties under operating leases. None of the leases includes contingent rentals.

(b) Capital commitments

Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	2006 **RMB'000**	2005 RMB'000
Contracted for	**57,529**	70,750
Authorised but not contracted for	**646,732**	535,379
	704,261	606,129

(Expressed in Renminbi)

37 Related Party Transactions

During the year ended 31 December 2006, transactions with the following parties are considered as related party transactions.

Name of party

Jiangsu Yurun Food Group Co., Ltd. ("Jiangsu Yurun Food Group")
江蘇雨潤食品產業集團有限公司

Baiyin Yurun Meat Product Co., Ltd. ("Baiyin Yurun")
白銀雨潤肉類食品有限公司

Beijing Yurun Food Co., Ltd. ("Beijing Yurun Food")
北京雨潤食品有限公司

Guangzhou Jinrun Food Co., Ltd. ("Guangzhou Jinrun")
廣州錦潤食品有限公司

Jiangsu Wangrun Food Co., Ltd. ("Jiangsu Wangrun")
江蘇旺潤食品有限公司

Liaoning Kaiyuan Yurun Meat Product Co., Ltd. ("Kaiyuan Yurun")
遼寧省開原市雨潤肉食品有限公司

Nanjing Yurun Food Joint Stock Co., Ltd. ("Yurun Stock")
南京雨潤食品股份有限公司

Neijiang Yurun Meat Product Co., Ltd. ("Neijiang Yurun Product")
內江雨潤肉食品有限公司

Anhui Xuerun Meat Product Co., Ltd. ("Anhui Xuerun")
安徽省雪潤肉食品有限公司

Anhui Enbi Protein Co., Ltd. ("Anhui Enbi")
安徽恩彼蛋白質有限公司

Anqing Furun Poultry Product Co., Ltd. ("Anqing Furun")
安慶福潤禽業食品有限公司

37 Related Party Transactions *(Continued)*

Name of party *(Continued)*

Beijing Yurun Dihua Property Development Co., Ltd. (“Beijing Dihua”)
北京雨潤地華置業有限公司

Huangshan Songpa Golf and Club House Co., Ltd. (“Huangshan Songpa”)
黃山松柏高爾夫鄉村俱樂部有限公司

Jiangsu Dihua Real Estate Development Co., Ltd. (“Jiangsu Dihua”)
江蘇地華房地產發展有限公司

Nanjing Diyi Trading Company Limited (“Nanjing Diyi”)
南京帝益貿易有限公司

Nanjing Yurun Commercial Management Co., Ltd. (“Nanjing Yurun Commercial”)
南京雨潤商業管理有限公司

Jiangsu Fengrun Food Co., Ltd. (“Fengrun”)
江蘇豐潤食品有限公司

Liaocheng Furun Poultry Product Co., Ltd. (“Liaocheng Furun”)
聊城市福潤禽業食品有限公司

Dujiangyan Furun Meat Processing Co., Ltd. (“Dujiangyan Furun”)
都江堰福潤肉類加工有限公司

Guilin Furun Meat Processing Co., Ltd. (“Guilin Furun”)
桂林福潤肉類食品有限公司

Hunan Lixian Furun Meat Food Co., Ltd. (“Lixian Furun”)
湖南澧縣福潤肉類食品有限公司

Xinyu Furun Meat Food Co., Ltd. (“Xinyu Furun”)
新餘福潤肉類食品有限公司

Anhui Yurun Group Co., Ltd. (“Anhui Yurun”)
安徽雨潤食品集團有限公司

37 Related Party Transactions *(Continued)*

Name of party *(Continued)*

Jiangsu Furun Meat Processing Co., Ltd. ("Jiangsu Furun")
江蘇福潤肉類加工有限公司

Harbin Popular Meat-Packing Group Co., Ltd.
哈爾濱大眾肉聯集團有限公司

Itoham
伊藤

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

Mr Zhu Yicai is the director and beneficial shareholder of the Company and also has beneficial interests in the related parties.

37 Related Party Transactions *(Continued)*

(a) Significant related party transactions – Recurring

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

	2006 **RMB'000**	2005 RMB'000
Sales of meat and by-product		
Anhui Xuerun	**17,308**	18,033
Anhui Enbi	**2,472**	2,379
Total	**19,780**	20,412
Sales of raw materials		
Anhui Xuerun *	**7,407**	6,896
Purchases of raw materials		
Anqing Furun	**1,492**	5,175
Liaocheng Furun	**6,416**	6,342
Total	**7,908**	11,517
Purchases of finished goods		
Anhui Xuerun **	**57,053**	53,013

* The cost of sales of raw materials to Anhui Xuerun and the deemed distribution fee amounted to RMB7,190,000 (2005: RMB6,716,000) and RMB217,000 (2005: RMB180,000) respectively.

** The related sales of finished goods purchased from Anhui Xuerun and the deemed distribution fee amounted to RMB58,818,000 (2005: RMB54,621,000) and RMB1,765,000 (2005: RMB1,590,000) respectively.

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

Pursuant to the Reorganisation, certain property, plant and equipment and land use rights owned by the Predecessor Entities with an aggregate net book value totalling RMB290,139,000 and RMB195,635,000 during the year ended 31 December 2005 were not transferred to the Group but were leased to the Group under finance leases (notes 18 and 30) and operating leases (note 19) respectively.

The Group acquired certain Predecessor Entities during the year ended 31 December 2006 (note 37(f)). At the date of acquisition, the finance lease liabilities for the property, plant and equipment owned by those Predecessor Entities were eliminated on consolidation.

37 Related Party Transactions *(Continued)*

(a) Significant related party transactions – Recurring *(Continued)*

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

The rental for the year ended 31 December 2006 amounted to RMB13,201,000 (2005: RMB14,385,000).

The independent non-executive directors of the Company are of the opinion that the above transactions with the related parties were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

During the year, certain Predecessor Entities made available their properties with a carrying value of RMB14,133,000 (2005: RMB19,437,000) as at 31 December 2006 to the Group. No rental is paid or payable by any of the group companies.

37 Related Party Transactions *(Continued)*

(b) *Significant related party transactions – Non-recurring*

(i) Particulars of significant transactions between the Group and the related parties during the year ended 31 December 2006 are as follows:

	2006 RMB'000	2005 RMB'000
Sales of meat and by-product		
Nanjing Yurun Commercial	–	10,635
Others	–	1,110
Total	–	11,745
Sales of raw materials		
Nanjing Yurun Commercial	–	12
Others	–	226
Total	–	238
Purchases of raw materials		
Anhui Xuerun	–	433
Guilin Furun	–	6,703
Lixian Furun	–	2,437
Xinyu Furun	–	3,664
Others	–	64
Total	–	13,301

37 Related Party Transactions *(Continued)*

(b) Significant related party transactions – Non-recurring (Continued)

(ii) Included in the balances as set out in note 37(c) are short-term advances made by the Group to companies controlled by directors and shareholders of the Company.

The maximum balances of which during the year ended 31 December 2006 are as follows:

	2006 **RMB'000**	2005 RMB'000
Jiangsu Yurun Food Group	–	1,557,458
Nanjing Diyi	–	78,122
Anqing Furun	–	11,242
Anhui Xuerun	–	169,793
Beijing Dihua	–	33,500
Nanjing Yurun Commercial	–	11,937
Jiangsu Dihua	–	26,651
Huangshan Songpa	–	1,018
Dujiangyan Furun	–	127
Fengrun	–	269
Guilin Furun	–	3,631
Lixian Furun	–	23,086
Xinyu Furun	–	35,454
Others	–	3,696

(iii) As at 31 December 2006, bank loans totalling RMB43,000,000 (2005: Nil) were guaranteed by Jiangsu Yurun Food Group.

(iv) For the year ended 31 December 2005, bills discounted expenses totalling RMB9,032,000 of the Group were borne by Jiangsu Yurun Food Group. During the year ended 31 December 2005, the relevant proceeds from discounted bills totalling RMB508,936,000 were on-lent to Jiangsu Yurun Food Group.

(v) As at 31 December 2005, certain properties of the Group with an aggregate net book value of RMB12,832,000 were pledged against bank loans totalling RMB20,000,000 of the Predecessor Entities.

37 Related Party Transactions *(Continued)*

(c) Amounts due from related companies

	2006 **RMB'000**	2005 RMB'000
Trade		
Anhui Xuerun	**880**	5,260
Anhui Enbi	**15**	–
Itohom	**–**	464
	895	5,724
Non-trade		
Jiangsu Yurun Food Group	**3,195**	–
Anhui Enbi	**885**	–
	4,080	–
Total	**4,975**	5,724

Amounts due from related companies are unsecured, interest free and are expected to be recovered within one year. There was no impairment made against these amounts at 31 December 2006.

37 Related Party Transactions *(Continued)*

(d) Amounts due to related companies

	2006 RMB'000	2005 RMB'000
Trade		
Anhui Enbi	**25**	684
Anhui Xuerun	**619**	3,561
Anqing Furun	**396**	429
Liaocheng Furun	**2,694**	418
	3,734	5,092
Non-trade		
Jiangsu Yurun Food Group	**12,676**	–
Anhui Yurun	**34,186**	–
Jiangsu Furun	**15,963**	–
Neijiang Yurun Product	**9,910**	–
	72,735	–
Total	**76,469**	5,092

Non-trade balances due to related companies represent amounts payable for the acquisition of Predecessor Entities. Amounts due to related companies are unsecured, interest free and are expected to be repaid within one year.

37 Related Party Transactions *(Continued)*

(e) *Key management personnel remuneration*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 13 and certain of the highest paid employees as disclosed in note 14, is as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	**3,493**	3,216
Contributions to retirement benefit schemes	**131**	45
Share-based payment	**2,451**	–
Total	**6,075**	3,261

Total remuneration is included in "personnel expenses" (see note 10(b)).

(f) *Acquisitions of Predecessor Entities*

During the year ended 31 December 2006, the Group acquired the following Predecessor Entities:

Name of Company	**Date of acquisition**	**Consideration** RMB'000
Anhui Furun	27 June 2006	67,410
Guangyuan Furun	18 December 2006	14,158
Handan Furun	20 December 2006	18,790
Kaifeng Furun	19 December 2006	53,212
Kaiyuan Furun	18 December 2006	12,832
Sichuan Furun	15 December 2006	30,472
Suzhou Furun	14 December 2006	62,155
		259,029

37 Related Party Transactions *(Continued)*

(f) Acquisitions of Predecessor Entities (Continued)

The acquisitions had the following effect on the Group's assets and liabilities.

Acquirees' net assets at the acquisition date

	Pre-acquisition carrying amounts at the respective acquisition dates RMB'000
Construction in progress	14,301
Lease prepayments	81,385
Finance lease receivables	100,461
Other net liabilities	(53,405)
	142,742

The properties and land use right owned by the Predecessor Entities were leased to the Group under finance lease and operating lease respectively. Accordingly, the Group's finance lease liabilities amounted to RMB100,461,000 were eliminated at the date of acquisition. The excess of the consideration over the carrying amounts of the acquired net assets was recorded in the merger reserve.

38 Subsequent Events

(a) Acquisition of Huaxin Food Factory (華信食品廠)

On 18 April 2006, the Group entered into an acquisition agreement with Shandong Province Shanghe County Economic and Trade Commission (山東商河縣經濟貿易局), an independent third party, to acquire the business operations of slaughtering, production and sale of chilled and frozen meat together with the relevant assets and liabilities of Huaxin Food Factory at a consideration of RMB100,000. The transfer of assets and liabilities is still in progress and it is expected that the transfer procedures will be completed in the first half of 2007.

(b) Acquisition of Xinyu Run He Meat Product Co., Ltd.

On 15 December 2006, the Group entered into an acquisition agreement with Lin Qing Zhao (林清照) and Wu Rui Lin (吳瑞林), independent third parties, to acquire their shareholding in Xinyu Run He Meat Product Co., Ltd. (新餘潤合肉類食品有限公司) at a consideration of RMB70,693,000. Xinyu Run He Meat Product Co., Ltd. is engaged in slaughtering, production and sale of chilled and frozen meat. The acquisition was completed on 5 January 2007.

38 Subsequent Events *(Continued)*

(c) Tax reform

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax applicable to the companies comprising the Group in the PRC will be reduced from 33% to 25% from 1 January 2008. These changes will be reflected in the 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable. The management believes the impact of the new tax law will not have material effects on the net assets and profit or loss of the Group.

39 Immediate and Ultimate Holding Company

The directors consider the immediate and ultimate holding company of the Company as at 31 December 2006 to be Willie Holdings Limited incorporated in BVI. This entity does not produce financial statements available for public use.

40 Accounting Estimates and Judgements

Key sources of estimation uncertainty

Notes 5, 32 and 35 contain information about the assumptions relating to the valuation of fair value of land use rights, property, plant and equipments, share options granted and financial instrument. Other sources estimation uncertainties are as follows:

(i) 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 reassess these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

(ii) Impairment of trade receivables

The Group's management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassess the impairment of trade receivables at the balance sheet date.

(iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(Expressed in Renminbi)

41 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2006

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2006 and which have not been adopted in these financial statements. The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of the initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective date (for annual financial statements covering periods beginning on or after)
Amendments to IAS 1 (August 2005)	"Capital disclosures"	1 January 2007
IFRS 7	"Financial instruments: Disclosure"	1 January 2007
IFRS 8	"Operating segments"	1 January 2009