CHINA YURUN FOOD GROUP LIMITED
中國雨潤食品集團有限公司 *

(incorporated in Bermuda with limited liability)

Stock Code: 1068

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

	2007 *(HK$ in million)*	2006 *(HK$ in million)*	Growth
Turnover	**8,635**	4,621	86.9%
Gross profit	**1,220**	711	71.6%
Profit attributable to shareholders	**859**	481	78.7%
Diluted earnings per share (HK$)	**0.582**	0.331	75.8%

- The Group's turnover has increased by 86.9%, demonstrating a strong growth momentum
- Gross profit and profit attributable to shareholders have risen sharply with respective growth rate reached 71.6% and 78.7%
- Diluted earnings per share performed satisfactorily with a growth rate of 75.8%

SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007 together with the comparative figures of the corresponding period in 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	**2007** **$'000**	2006 $'000
Turnover	3	**8,635,117**	4,621,336
Cost of sales		**(7,414,760)**	(3,910,174)
Gross profit		**1,220,357**	711,162
Other operating income		**190,725**	89,374
Distribution expenses		**(351,017)**	(216,079)
Administrative and other operating expenses		**(188,504)**	(109,754)
Results from operating activities		**871,561**	474,703
Finance income		**63,386**	25,559
Finance expenses		**(22,168)**	(13,673)
Net financing income		**41,218**	11,886
Share of loss of an equity accounted investee (net of income tax)		**(761)**	(1,224)
Profit before income tax	4	**912,018**	485,365
Income tax expense	5	**(51,189)**	(5,504)
Profit for the year		**860,829**	479,861

Attributable to:			
Equity holders of the Company		**859,319**	480,963
Minority interests		**1,510**	(1,102)
Profit for the year		**860,829**	479,861
Dividends payable to equity holders of the Company attributable to the year	6		
Interim dividend declared and paid during the year		**106,887**	60,982
Dividends proposed after the balance sheet date		**122,156**	60,982
		229,043	121,964
Earnings per share			
Basic	7(a)	**$0.584**	$0.331
Diluted	7(b)	**$0.582**	$0.331

Consolidated balance sheet at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	**2007** **$'000**	2006 $'000
Non-current assets			
Property, plant and equipment		**1,779,261**	933,891
Investment property		**219,585**	—
Lease prepayments		**722,662**	220,238
Investment in an equity accounted investee		**3,504**	4,004
Non-current prepayments		**233,425**	116,916
Deferred tax assets		**12,554**	18,396
		2,970,991	1,293,445
Current assets			
Inventories		**681,813**	513,922
Other investments		**1,073**	2,000
Current portion of lease prepayments		**15,451**	4,675
Trade and other receivables	8	**708,745**	487,436
Amounts due from related companies		**—**	4,080
Income tax recoverable		**3,718**	—
Pledged deposits		**29,728**	1,818
Cash and cash equivalents		**1,965,966**	843,956
		3,406,494	1,857,887
Current liabilities			
Bank loans		**267,571**	43,000
Finance lease liabilities		**459**	516
Trade and other payables	9	**755,958**	377,957
Amounts due to related companies		**—**	72,735
Income tax payable		**19,021**	7,337
		1,043,009	501,545
Net current assets		**2,363,485**	1,356,342
Total assets less current liabilities		**5,334,476**	2,649,787

	Note	2007 $'000	2006 $'000
Non-current liabilities			
Bank loans		**826,430**	—
Finance lease liabilities		**177,206**	187,665
Deferred tax liabilities		**—**	948
		1,003,636	188,613
Net assets		**4,330,840**	2,461,174
Equity			
Share capital		**152,695**	145,195
Reserves		**3,986,480**	2,303,523
Total equity attributable to equity holders of the Company		**4,139,175**	2,448,718
Minority interests		**191,665**	12,456
Total equity		**4,330,840**	2,461,174

Notes

1. Review of Annual Results

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2007 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. 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"). The Company changed its presentation currency from RMB to Hong Kong dollars, which is the Company's functional currency, in 2007. Comparative financial information has been re-translated to Hong Kong dollars. All financial information presented in Hong Kong dollars has been rounded to the nearest thousand.

3. Turnover and segment information

Turnover represents the sales value of goods sold to customers which excludes value added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts and volume rebate.

(a) Revenue and expenses

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
External revenue	**6,605,537**	3,237,002	**2,029,580**	1,384,334	**—**	—	**8,635,117**	4,621,336
Inter-segment revenue	**807,759**	315,207	**—**	—	**(807,759)**	(315,207)	**—**	—
Total segment revenue	**7,413,296**	3,552,209	**2,029,580**	1,384,334	**(807,759)**	(315,207)	**8,635,117**	4,621,336
Segment results	**619,966**	321,272	**293,715**	278,272	**(6,089)**	(3,499)	**907,592**	596,045
Unallocated income and expenses							**(36,031)**	(121,342)
Operating profit							**871,561**	474,703
Net financing income							**41,218**	11,886
Share of loss of an equity accounted investee							**(761)**	(1,224)
Income tax expense							**(51,189)**	(5,504)
Profit for the year							**860,829**	479,861
Depreciation and amortisation for the year	**45,135**	16,287	**38,034**	29,379	**—**	—	**83,169**	45,666
Unallocated depreciation and amortisation for the year							**15**	71
							83,184	45,737
Significant non-cash (income)/ expenses (other than depreciation and amortisation)	**(289)**	808	**(992)**	1,326	**—**	—	**(1,281)**	2,134
Unallocated significant non-cash expenses (other than depreciation and amortisation)							**18,090**	2,357
							16,809	4,491

(b) Assets and liabilities

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Segment assets	**3,289,073**	1,309,327	**1,461,228**	1,163,507	**(389,737)**	(196,336)	**4,360,564**	2,276,498
Investment in an equity accounted investee	**—**	—	**3,504**	4,004	**—**	—	**3,504**	4,004
Unallocated assets							**2,013,417**	870,830
Total assets							**6,377,485**	3,151,332
Segment liabilities	**(388,434)**	(332,719)	**(734,927)**	(229,716)	**375,503**	189,750	**(747,858)**	(372,685)
Unallocated liabilities							**(1,298,787)**	(317,473)
Total liabilities							**(2,046,645)**	(690,158)
Capital expenditure incurred during the year	**1,133,812**	566,701	**212,634**	203,845			**1,346,446**	770,546
Unallocated capital expenditure incurred during the year							**15**	35
							1,346,461	770,581

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

4. Profit before income tax

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

	2007	2006
	$'000	*$'000*
Cost of inventories	**7,414,760**	3,910,174
Depreciation	**75,178**	44,529
Amortisation of lease prepayments	**8,006**	1,208
Interest on bank borrowings	**14,787**	938

5. Income tax expense

Income tax expense in the consolidated income statement represents:

	2007 *$'000*	2006 *$'000*
Current tax expense		
Current year	**49,821**	6,592
Under/(over) provision in respect of prior years	**197**	(719)
	50,018	5,873
Deferred tax expense/(income)		
Change in tax rate	**759**	—
Originating and reversal of temporary differences	**412**	(369)
	1,171	(369)
Income tax expense in the consolidated income statement	**51,189**	5,504

(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 2007 and 2006.

(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% during the year ended 31 December 2007 (2006: 33%), except for the following:

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

(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 2007 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% for the remaining years through 2010.

(d) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax law of the PRC which takes effect from 1 January 2008. According to the new PRC tax law and its interpretation rules, the income tax rate applicable to the companies comprising the Group in the PRC is reduced from 33% to 25% from 1 January 2008. The Tax Holidays will be deemed to start from 1 January 2008, even if the companies are not yet turning a profit and the unutilised Tax Holidays can continue until expiry.

Under the new PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax treaty between the PRC and Hong Kong, the investment holding companies established in Hong Kong will be subject to a reduced withholding tax rate of 5% on dividends it receives from its PRC subsidiaries. Pursuant to the grandfathering treatments at the new PRC tax law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

In addition, under the new PRC tax law and its implementation rules, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. Since most of the Group's management is currently located in the PRC, the Group may be subject to PRC income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise may be exempted from this tax, but there is no guarantee that the Group will qualify for this exemption.

6. Dividends

Dividends attributable to equity holders of the Company attributable to the year

	2007	2006
	$'000	*$'000*
Interim dividend declared and paid of $0.070 (2006: $0.042) per share	**106,887**	60,982
Final dividend proposed after the balance sheet date of $0.080 (2006: $0.042) per share	**122,156**	60,982
	229,043	121,964

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

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year of $859,319,000 (2006: $480,963,000) and the weighted average number of 1,470,240,000 (2006: 1,451,953,000) shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company for the year of $859,319,000 and the weighted average number of 1,476,779,000 shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007
	$'000
Weighted average number of ordinary shares	**1,470,240**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**6,539**
Weighted average number of ordinary shares (diluted)	**1,476,779**

The share options granted under the share option scheme are anti-dilutive as at 31 December 2006 and therefore excluded in calculating diluted earnings per share for the year ended 31 December 2006. As a result, diluted earnings per share for the year ended 31 December 2006 is not presented.

8. Trade and other receivables

	2007	2006
	$'000	*$'000*
Trade and bills receivables	**501,356**	322,793
Value-added tax recoverable	**132,013**	107,817
Deposits and prepayments	**67,129**	51,648
Others	**8,247**	5,178
	708,745	487,436

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

	2007	2006
	$'000	*$'000*
Within 30 days	**382,055**	209,464
31 days to 90 days	**99,959**	89,565
91 days to 180 days	**16,027**	15,741
Over 180 days	**3,315**	8,023
	501,356	322,793

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

9. Trade and other payables

	2007	2006
	$'000	*$'000*
Trade and bills payables	**330,845**	212,543
Receipts in advance	**118,130**	44,230
VAT payable	**2,112**	4,963
Other payables and accruals	**304,871**	116,221
	755,958	377,957

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

	2007	2006
	$'000	*$'000*
Within 30 days	**231,829**	157,481
31 days to 90 days	**51,517**	31,115
91 days to 180 days	**33,964**	10,781
Over 180 days	**13,535**	13,166
	330,845	212,543

FINAL DIVIDEND

The Board has recommended a final dividend of HK$0.080 (2006: HK$0.042) per share, subject to shareholders' approval at the forthcoming annual general meeting. This final dividend, if approved by the shareholders at the forthcoming annual general meeting, together with the interim dividend of HK$0.070 (2006: HK$0.042) per share, will make a total dividend of HK$0.150 (2006: HK$0.084) per share for the year ended 31 December 2007.

The proposed final dividend, if approved, will be paid on or about 28 May 2008 to shareholders whose names appear on the Register of Members of the Company on 21 May 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 15 May 2008 to Wednesday, 21 May 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 14 May 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

2007 has been a challenging year for both the meat processing enterprises and the pig slaughtering enterprises.

The short-term imbalance between domestic hog supply and demand, coupled with a substantial price increase for feed stocks, domestic hog prices further increased in 2007. According to the Ministry of Agriculture, the national average domestic hog price was approximately RMB11.84 per kg in 2007, representing an increase of 63.5% over RMB7.24 per kg of the preceding year. The supply and demand gap of hogs and the continuous increase in hog price have put higher pressure on the overall management and operation on meat processors in their supply chain management, pricing ability and cost control.

In the second half of 2007, given the sharp rise in Consumer Price Index (CPI), the Chinese government put forward the guidance on supply control and price stabilisation. Following such guidance, the National Development and Reform Commission put into force the "Implementation of temporary measures for price-Intervention on some important commodities and services" in January 2008, which imposed temporary price control on certain important commodities and services in the country. This also included the requirement of return filings on the price adjustment of pork and pork products by the retailers and wholesalers.

To ensure a steady supply of hogs and promote the healthy development of the hog and pork products market, the Chinese government further strengthened its administrative oversight of the industry, creating favourable environment and opportunities for the mid to long term development of the meat processors. In order to alleviate the supply pressure, as one of the measures to stabilise hog price, the Chinese government encouraged and financially subsidised the farmers for hog breeding. Furthermore, in order to regulate the slaughtering industry to ensure an orderly development, the Chinese government continued the drafting of the "Administrative Provisions for Live Pig Slaughtering (Second Draft)" and "Food Safety Regulations", building a solid foundation for the standardisation and healthy advancement of the industry.

Business Review

Despite 2007 being a challenging year, the Group maintained a robust growth by leveraging on its established advantages, such as its acclaimed brand and market positioning, focusing on the mid to high end markets, flexible pricing strategies, diversified distribution channels, outstanding and experienced management team and the flexible and solid capacity expansion strategies. Low temperature meat products ("LTMP") and chilled pork were the main contributors to the Group's growth, the sales of which went up significantly compared to those of the preceding year.

During the period under review, the Group continued to expand its production capability, enhance its production network, and has successfully increased its supply to meet the rapidly growing market demand for the Group's products. Leveraging on the strong brand recognition and mature operational system, the Group successfully expanded production capacity and market penetration through both organic growth such as green and brown field projects, and mergers and acquisitions. In 2007, the Group successfully acquired six factories in Jiangxi, Hunan, Sichuan, Hubei and Jilin. These strategic acquisitions allowed the Group to further enhance its hog procurement network and market coverage. During the year, the Group also launched many marketing campaigns by advertising on China Central Television ("CCTV") and various mobile media to ensure that its flagship "Yurun" brand is firmly established among consumers.

On the back of a nationwide production network, efficient supply chain management, flexible sales and marketing strategies, as well as sound management and operation capabilities, the Group was able to maintain its live hogs procurement capability and strong pricing power, which catalyse its business growth while ensuring stable margins, amid the challenging market condition where the hog purchase price increased continuously and the supply of hogs was tight.

Sales and Distribution

In order to further strengthen the Group's profitability, apart from concentrating on developing products with higher profit margins and enriching product mix as always, the Group continued to build on the flagship "Yurun" brand with more advertising and promotion efforts which helped the Group to achieve outstanding results in LTMP and chilled pork businesses amid the competitive environment.

With respect to the target markets and distribution channels, the Group continued to focus more on direct sales supplemented with distribution through independent distributors. By stepping up co-operation with supermarkets and chain stores, the Group has enhanced its sales through these direct channels. Yurun Food also optimised the product distribution network to further extend its reach to existing and potential customers in the domestic consumer market. During the year, the Group has sold its products to over 300 cities in China. At the same time, the Group further strengthened its co-operation with high-class hotels and catering chains so as to enhance the profitability by increasing the sales of products which have higher margins.

In 2007, sales of chilled pork were HK$4.677 billion, an increase of 124.6% over that of 2006, which represented 49.5% (2006: 42.2%) of the Group's total turnover before inter-segment elimination and 63.1% (2006: 58.6%) of the Group's total turnover in its upstream business. Chilled pork continued to act as the key driver for the Group's business growth. During the same period, the Group realised a LTMP sales of HK$1.753 billion, an increase of 51.2% over that of 2006, which represented 18.6% (2006: 23.5%) of the Group's total turnover before inter-segment elimination and 86.4% (2006: 83.8%) of the total turnover in downstream meat processing business.

Production Facilities and Production Capacity

To fulfill the booming market demands of the Yurun brand products, the Group continued to expand its capacities for chilled and frozen meat production. By the end of 2007, the Group's annual slaughtering capacity reached 14 million heads, an increase of 3.85 million heads from 2006 year end.

In the downstream business, the Group has been focusing on supplementing market coverage, reducing bottlenecks and upgrading key production facilities. Annual production capacity of its downstream meat processing business increased by 50,000 tons from the end of 2006 to 218,000 tons as at the end of 2007.

As a result of increased geographical coverage and rapid sales growth, the Group managed to increase the utilisation rate of downstream meat processing business amid fast production capacity expansion. In 2007, the weighted average utilisation rate of downstream meat processing business has increased from 57% of last year to 62% in 2007. During the year, the shortage of live hog supply in China slightly affected the performance of the Group's upstream business. The utilisation rate of the upstream slaughtering business for the year was 57%, representing a slight decrease as compared to 66% of 2006.

Product Quality and R&D

Quality has been the Group's most important management objective since its establishment. Internal quality control procedures are properly set up and implemented at each process of procurement, production, sales and logistics, gaining us a good reputation among consumers and in the industry.

The Group gives great attention to research and development ("R&D") of high-end products. It has an R&D team of over 300 members focusing on the R&D of competitive new products to foster a new meat consumption trend. In 2007, the Group successfully launched approximately 190 new products across China, including the Sunshine series featuring energetic. These products were well received by the market as they were fresh, tasty, nutritious and convenient.

Financial Review

Benefited from the significant increase in selling price and rapid growth in sales volumes, the Group achieved a turnover of HK$8.635 billion in 2007, an increase of 86.9% over last year's HK$4.621 billion. The Group also recorded a net profit of HK$0.859 billion (2006: HK$0.481 billion), up 78.7% from the previous year. Diluted earnings per share was HK$0.582, 75.8% increment from last year's HK$0.331.

Turnover

Processed Meat Products

By the end of 2007, the Group produced approximately 1,000 different types of processed meat products. Benefited from the goodwill of its strong brands and effective marketing strategy, LTMP sales volume in 2007 has increased by 26.2%. Our processed meat business enjoyed another good year due to the timely adjustments of product prices, optimisation of product mix and the launching of new products with higher profit margins. The turnover of LTMP in 2007 reached HK$1.753 billion, an increase of 51.2% from that of the last year of HK$1.159 billion. LTMP was again the major revenue driver in the processed meat business accounting for approximately 86.4 % (2006: 83.8%) of the total turnover in this business. In 2007, the turnover of high temperature meat products ("HTMP") was HK$277 million (2006: HK$225 million), accounting for approximately 13.6% (2006: 16.2%) of the total turnover in the processed meat business.

Chilled and Frozen pork

Despite the relatively tight supply of hogs, the Group's slaughtering volume in 2007 enjoyed a sustained growth on the back of the Group's extensive network and strong presence across China. Meanwhile, turnover in upstream business went up significantly by 108.8% and this was mainly due to the Group's market-oriented pricing strategy by adjusting upstream prices accordingly when hog prices rose enormously.

In 2007, the Group realised a total sales of chilled pork and frozen pork of 523,000 tons, representing an increase of 17.9% over that of the previous year. The total sales generated from the upstream business (before inter-segment elimination) reached HK$7.413 billion. Amongst which, revenue generated by the chilled pork business was approximately HK$4.677 billion, representing an increase of 124.6% from that of the previous year, representing 63.1% (2006: 58.6%) of the total revenue of upstream business with an annual sales of approximately 300,000 tons in volume, 23.5% up from that of the previous year. Sales of frozen pork came to a total of HK$2.736 billion, representing 36.9% (2006: 41.4%) of the total sales in the upstream business, with a sales volume of 223,000 tons, an increase of 11.1% from that of 2006.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 71.6% from HK$711 million in 2006 to HK$1.220 billion in 2007; whereas the Group's gross profit margin slightly decreased by 1.3 percentage points from 15.4% in 2006 to 14.1% in 2007. This was mainly due to the increase in sales proportion in the upstream business which traditionally enjoys a relatively lower profit margin than that of the downstream business.

For the downstream meat processing business, the gross profit margin for LTMP was 28.4%, an increase of 2.3 percentage points compared with that of previous year, whereas the gross profit margin for HTMP was 16.7%, 2.6 percentage points lower than that of preceding year. Overall gross profit margin for the downstream business was 26.8%, an increase of 1.8 percentage points from last year of 25.0%. The increase was primarily brought on by the Group's ability to increase the product price, as well as enhanced sales contribution from high margin products.

For the upstream raw pork business, the gross profit margin of chilled and frozen pork was 10.7% and 6.6% respectively, a slight drop of 1.7 and 0.8 percentage points respectively compared with those of the previous year. The overall gross profit margin was 9.2%, representing 1.1 percentage points lower than that of the preceding year of 10.3%. This is attributable to the Group's ability to stick to the market-based pricing strategy which helps to stabilise the gross profit margin despite there were significant changes in the hog price during the year.

Other Operating Income

Other operating income mainly includes government subsidies and negative goodwill. During the year, the Group had other operating income of HK$191 million (2006: HK$89 million), primarily due to the negative goodwill of RMB50 million (equivalent to approximately HK$50 million) resulted from acquisition of the business operations of Huaxin Food Factory in Jinan, Shandong province and the subsidies granted by the Chinese government to the Group as an incentive to its business development.

Operating Expenses

Operating expenses include distribution expenses, administrative expenses and other operating expenses. In 2007, the operating expenses of the Group were HK$540 million, an increase of 65.6% from last year's HK$326 million which was largely due to the Group's promotion efforts through mainstream and mobile media channels such as CCTV, higher transportation costs due to sales volume growth, and increased administrative expenses due to the staff options granted in late 2006. Operating expenses represented 6.2% of the Group's turnover, a decrease of 0.9 percentage point compared to 7.1% of last year. It clearly demonstrated the Group's ability to enjoy the economies of scale while expanding its business rapidly.

Operating Profit

In 2007, the Group's operating profit was HK$872 million, up 83.6% from that of last year of HK$475 million.

Net Financing Income

The Group's net financing income for 2007 was HK$41.22 million whereas the same for 2006 was HK$11.89 million. During the year, the Group recorded a significant increase of HK$48 million in the foreign exchange gain. On the other hand, financial expenses also increased because of the increaes in bank loans and the syndicated loan raised during the year.

Income Tax

In 2007, the total income tax of the Group was HK$51.19 million, with an effective tax rate of 5.6%, an increase from HK$5.50 million or an effective tax rate of 1.1% last year. The primary reason of the increase was that certain subsidiaries of the Group in the processed meat segment started to pay enterprise income tax in 2007 under the preferential tax policy of "exemption for two years and 50% tax reduction for the subsequent three years" applicable for foreign investment enterprises. However, as most of our slaughtering subsidiaries were still entitled to relevant tax preferential treatment specialised for State-Level Agriculture Leading Enterprise, they were exempted from corporate income tax.

Net Profit

Taking into accounts of all the above factors, the Group's net profit for 2007 was up by 78.7% to HK$859 million from 2006 of HK$481 million. Net profit margin for 2007 was 10.0%, comparable to the preceding year of 10.4%.

Financial Resources

The Group's major financial resources were cash inflow generated from operating activities; proceeds from the placement of new shares, the bank loans and syndicated loan also contributed significantly to our reserves for mid and long term growth. Cash inflow from operating activities during the year amounted to HK$748 million, with cash balance of HK$1,966 million as of 2007, representing an increase of HK$1,122 million compared with that of 2006. The October 2007 new shares placement added approximately HK$771 million to the Group's cash flow; whereas other bank loans and the November 2007 syndicated loan all together added another HK$1,257 million.

As at 31 December 2007, the Group had HK$1.094 billion outstanding loans. The Group has adhered to its prudent financial management policy. Whilst some funding has been used for strategic acquisitions and investments in production facilities during the year, sufficient working capital was ensured for day to day operating activities and other funding requirements.

Assets and Liabilities

As at 31 December 2007, the Group's total assets and total liabilities were HK$6.377 billion and HK$2.047 billion respectively, representing an increase of HK$3.226 billion and HK$1.356 billion compared with those of 31 December 2006 respectively.

As at 31 December 2007, equity attributable to equity holders of the Company was HK$4.139 billion. This represents an increase of HK$1.690 billion compared with HK$2.449 billion as at 31 December 2006.

As at 31 December 2007, certain properties, land use rights and bank deposits with a carrying amount of HK$183 million (2006: Nil) were pledged against bank loans.

As at 31 December 2007, the Group's gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders excluding minority interests) was 23.5%, an increase of 14.9 percentage points over 8.6% as at 31 December 2006, mainly due to the bank loans and syndicated loan totalling HK$1.257 billion drawn during the year.

Foreign Exchange risks

As the Group's cash flow from operations is mainly denominated in Renminbi, while our assets held and liabilities assumed are mostly denominated in Renminbi and US dollar respectively. Therefore, the impact of continued Renminbi appreciation lately on the Group was positive. In addition, the Group did not use any financial instrument for hedging purposes during the year.

Human Resources

As at 31 December 2007, the Group had 14,328 (2006: 11,519) employees in the PRC and Hong Kong. Total staff costs for the year were HK$267 million, accounting for 3.1% of the Group's turnover (2006: HK$ 167 million, accounting for 3.6% of the Group's turnover).

The Group offered competitive remunerations and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with industry and market practice, the Group also offered performance-based bonuses and a share option scheme to encourage and reward the employees' contributions to the Group's results and business development. In addition, the Group allocated resources for providing continuing education and training for management and employees to help improve their skills and knowledge continuously.

Prospects

The Group expects the pork's price to remain at a relatively high level in general in year 2008 and expects a possible slight adjustment in the second half of 2008. As a result of the soared meat price, many pig farmers started to raise breeding pigs and expand their capacities. The first pig crop from these new breeds is expected to be introduced to the market in the second half of 2008, stepping up the supply.

The Chinese Government has introduced various measures to encourage pig farming in order to ease the short supply of hogs and to promote the healthy growth of the hog farming industry. These include, among other things, subsidising on breeder pig insurance, strengthening epidemic prevention and financial support. In addition, the Chinese Government has introduced a series of initiatives pushing on the industry's regulating and phasing out small-scale meat production factories of low standard quality and hygiene levels. All these long term favourable factors help maintaining the rapid growth of large-scale meat product manufacturers, such as Yurun Food, which are already equipped with scale merit, capabilities, brand recognition and high quality products. Besides, the Group will thus benefit from the ample growth opportunities and fruitful outcome to be brought by the industry development and market consolidation.

Yurun Food, as one of the largest meat product manufacturers in China, benefits from its strong brand recognition, nationwide production network, mature and efficient supply chain management, extensive sales and marketing channels as well as strong research and development capabilities of new products. Going forward, the Group will continue to take advantage of the growth opportunity provided by changing consuming pattern of large and medium-sized cities in China. By advertising in the mainstream media, the Group will further strengthen the "Yurun" series brands as "Healthy, Quality, Delicious and High-end" in the market and achieve rapid sales growth of LTMP and chilled pork businesses in the next three to five years. On the backdrop of the expected consolidation in the meat processing sector towards an industry characterised with a reasonable concentration of large-scale and efficient enterprises, the Group will continue to further expand its capabilities both upstream and downstream via acquisitions, green field and brown field projects. At the same time, the Group will commit to industry upgrade and technological innovations for building up a solid foundation to meet the rapid growing demand. In addition, apart from its continuous effort to enhance its value-added capability and sales forces, the Group will pursue vigorously the mid to high end markets and continue to develop new products and customers, extending the scope and depth of market coverage. The Group will also leverage its market-oriented pricing mechanism to ensure a generally stable level of gross margin.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. The Company, having made specific enquiry of all directors, confirms that the directors have complied with the required standard set out in the Model Code throughout the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year, except for the placing of 75,000,000 shares to investors.

USE OF PROCEEDS

The shares of the Company were listed on the Main Board of the Stock Exchange on 3 October 2005 ("Listing"). The proceeds from the Listing were applied in accordance with the Group's future plans, details of which are set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated 20 September 2005 as follows:

Intended use	**Unused proceeds as of 1 January 2007**	**Actual use of proceeds for the year ended 31 December 2007**	**Unused proceeds as of 31 December 2007**
	HK$ million	*HK$ million*	*HK$ million*
To expand production capacity	242	242	—
For working capital requirements and general corporate purposes	223	223	—
For research and development	51	11	40
To expand and improve sales network	20	20	—
	536	496	40

The remaining net proceeds were placed as deposits with interest-bearing bank accounts.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited annual results for the year ended 31 December 2007.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 9 April 2008

As at the date of this announcement, the executive directors are Zhu Yicai, Zhu Yiliang, Zhang Yuanfei, Feng Kuande, Ge Yuqi; the non-executive directors are Jiao Shuge (alias Jiao Zhen) and Sun Yanjun; and the independent non-executive directors are Zheng Xueyi, Kang Woon and Gao Hui.

* *For identification purposes only*