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 FINANCIAL YEAR ENDED 31 DECEMBER 2008

Financial Highlights

	2008	2007	
	(HK$ in million)	*(HK$ in million)*	Growth
Turnover	**13,024**	8,635	50.8%
Gross Profit	**1,690**	1,220	38.5%
Profit attributable to shareholders	**1,138**	859	32.4%
Diluted earnings per share (HK$)	**0.736**	0.582	26.5%

Industries all over the world were being lashed by the international financial crisis in 2008. The pork industry in China was also adversely affected by hog price fluctuation, food safety incidents in China as well as the global economic downturn. However, despite all these challenges and difficulties throughout the year, Yurun Food was able to overcome the obstacles and achieve its financial targets.

- In 2008, the Group's net profit reached HK$1,138 million, representing an increase of 32.4% compared to that of last year.

- The Group's turnover increased significantly by 50.8% to HK$13.024 billion.

- Diluted earnings per share was HK$0.736, representing an increase of 26.5% over that of 2007.

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 consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008 together with the comparative figures of the corresponding period in 2007 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	**2008** **\$'000**	2007 \$'000
Turnover	2	**13,023,901**	8,635,117
Cost of sales		**(11,333,916)**	(7,414,760)
Gross profit		**1,689,985**	1,220,357
Other operating income		**344,166**	190,725
Distribution expenses		**(546,580)**	(351,017)
Administrative and other operating expenses		**(312,329)**	(188,504)
Results from operating activities		**1,175,242**	871,561
Finance income		**136,931**	63,386
Finance expenses		**(72,930)**	(22,168)
Net finance income		**64,001**	41,218
Share of loss of an equity accounted investee (net of income tax)		**(781)**	(761)
Profit before income tax	4	**1,238,462**	912,018
Income tax expense	5	**(101,449)**	(51,189)
Profit for the year		**1,137,013**	860,829

	Note	2008 $'000	2007 $'000
Attributable to:			
Equity holders of the Company		**1,137,781**	859,319
Minority interests		**(768)**	1,510
Profit for the year		**1,137,013**	860,829
Dividends payable to equity holders of the Company attributable to the year	6		
Interim dividend declared during the year		**168,417**	106,887
Dividends proposed after the balance sheet date		**122,485**	122,156
		290,902	229,043
Earnings per share			
Basic	7(a)	**$0.744**	$0.584
Diluted	7(b)	**$0.736**	$0.582

CONSOLIDATED BALANCE SHEET
As at 31 December 2008
(Expressed in Hong Kong dollars)

	Note	**2008**	2007
		$'000	*$'000*
Non-current assets			
Property, plant and equipment		**2,588,082**	1,779,261
Investment property		**220,831**	219,585
Lease prepayments		**1,103,602**	722,662
Goodwill	3	**86,268**	—
Investment in an equity accounted investee		**2,915**	3,504
Non-current prepayments		**1,052,535**	233,425
Deferred tax assets		**10,908**	12,554
		5,065,141	2,970,991
Current assets			
Inventories		**703,455**	681,813
Other investments		**1,134**	1,073
Current portion of lease prepayments		**23,489**	15,451
Trade and other receivables	8	**703,954**	708,745
Income tax recoverable		**16,546**	3,718
Pledged deposits		**598,525**	29,728
Cash and cash equivalents		**1,209,092**	1,965,966
		3,256,195	3,406,494
Current liabilities			
Bank loans		**1,095,049**	267,571
Finance lease liabilities		**496**	459
Trade and other payables	9	**902,846**	755,958
Income tax payable		**19,776**	19,021
		2,018,167	1,043,009
Net current assets		**1,238,028**	2,363,485
Total assets less current liabilities		**6,303,169**	5,334,476

	2008	2007
	$'000	*$'000*
Non-current liabilities		
Bank loans	**833,062**	826,430
Finance lease liabilities	**177,967**	177,206
Deferred tax liabilities	**57,045**	—
	1,068,074	1,003,636
Net assets	**5,235,095**	4,330,840
Equity		
Share capital	**153,107**	152,695
Reserves	**5,061,849**	3,986,480
Total equity attributable to equity holders of the Company	**5,214,956**	4,139,175
Minority interests	**20,139**	191,665
Total equity	**5,235,095**	4,330,840

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 2008 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft 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. Turnover and segment information

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.

(a) Revenue and expenses

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
External revenue	**10,077,726**	6,605,537	**2,946,175**	2,029,580	**—**	—	**13,023,901**	8,635,117
Inter-segment revenue	**930,077**	807,759	**—**	—	**(930,077)**	(807,759)	**—**	—
Total segment revenue	**11,007,803**	7,413,296	**2,946,175**	2,029,580	**(930,077)**	(807,759)	**13,023,901**	8,635,117
Segment results	**860,700**	619,966	**343,984**	293,715	**(1,236)**	(6,089)	**1,203,448**	907,592
Unallocated income and expenses							**(28,206)**	(36,031)
Operating profit							**1,175,242**	871,561
Net finance income							**64,001**	41,218
Share of loss of an equity accounted investee							**(781)**	(761)
Income tax expenses							**(101,449)**	(51,189)
Profit for the year							**1,137,013**	860,829
Depreciation and amortisation for the year	**76,464**	45,135	**52,565**	38,034	**—**	—	**129,029**	83,169
Unallocated depreciation and amortisation for the year							**153**	15
							129,182	83,184
Significant non-cash expenses/(income) (other than depreciation and amortisation)	**1,555**	(289)	**880**	(992)	**—**	—	**2,435**	(1,281)
Unallocated significant non-cash expenses (other than depreciation and amortisation)							**10,457**	18,090
							12,892	16,809

(b) **Assets and liabilities**

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Segment assets	**4,921,572**	3,289,073	**1,746,374**	1,461,228	**(188,645)**	(389,737)	**6,479,301**	4,360,564
Investment in an equity accounted investee	**—**	—	**2,915**	3,504	**—**	—	**2,915**	3,504
Unallocated assets							**1,839,120**	2,013,417
Total assets							**8,321,336**	6,377,485
Segment liabilities	**(498,891)**	(388,434)	**(387,076)**	(734,927)	**172,361**	375,503	**(713,606)**	(747,858)
Unallocated liabilities							**(2,372,635)**	(1,298,787)
Total liabilities							**(3,086,241)**	(2,046,645)
Capital expenditure incurred during the year	**1,645,097**	1,133,812	**417,529**	212,634	**—**	—	**2,062,626**	1,346,446
Unallocated capital expenditure incurred during the year							**1,087**	15
							2,063,713	1,346,461

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

3. Business combinations

During the year ended 31 December 2008, the Group completed several business acquisitions at a total cash consideration of $350,168,000. The fair value to be assigned to the identifiable assets and liabilities, and hence the goodwill of $86,268,000 and negative goodwill of $192,870,000 (note 4) can only be determined provisionally. Management is in the midst of reassessing the fair values of the identifiable assets and liabilities at the respective acquisition dates. Management would recognise any adjustments to the provisional values of the identifiable assets and liabilities on a retrospective basis from the respective acquisition dates before the end of a twelve-month period following the respective acquisition dates.

4. Profit before income tax

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

	2008	2007
	$'000	*$'000*
Cost of inventories	**11,333,916**	7,414,760
Depreciation	**109,397**	75,178
Amortisation of lease prepayments	**19,785**	8,006
Interest on bank borrowings	**65,001**	14,787
Recognition of negative goodwill arising on business combinations	**(192,870)**	(49,976)

5. Income tax expense

Income tax expense in the consolidated income statement represents:

	2008	2007
	$'000	*$'000*
Current tax expense		
Current year	**38,318**	49,821
Under-provision in respect of prior years	**3,746**	197
	42,064	50,018
Deferred tax income		
Change in tax rate	**—**	759
Originating and reversal of temporary differences	**59,385**	412
	59,385	1,171
Income tax expense in the consolidated income statement	**101,449**	51,189

(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 2008 and 2007.

(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 25% during the year ended 31 December 2008 (2007: 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 following three years. According to the new PRC tax law and its interpretation rules which are effective from 1 January 2008 ("new PRC tax law"), the tax holiday is deemed to start from 1 January 2008, even if the companies are not yet recording profit and the unutilised tax holidays can continue until expiry.

(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% equity interest owned by a State-Level Agricultural Leading Enterprise is also entitled to an 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.

According to the new PRC tax law, enterprises engaged in the primary processing of agricultural products will be exempted from PRC enterprise income tax. As a result, all subsidiaries engaged in slaughtering are exempted from PRC enterprise income tax for the year ended 31 December 2008.

(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. 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) 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 are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Pursuant to the grandfathering treatments of 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. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

(e) Under the new PRC tax law, 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

	2008	2007
	$'000	*$'000*
Interim dividend declared and paid of $0.110 (2007: $0.070) per share	**168,417**	106,887
Final dividend proposed after the balance sheet date of $0.080 (2007: $0.080) per share	**122,485**	122,156
	290,902	229,043

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 2008 is based on the profit attributable to equity holders of the Company for the year of $1,137,781,000 (2007: $859,319,000) and the weighted average number of 1,529,635,000 (2007: 1,470,240,000) shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity holders of the Company for the year of $1,137,781,000 (2007:$859,319,000) and the weighted average number of 1,545,133,000 (2007:1,476,779,000) shares.

8. Trade and other receivables

	2008	2007
	$'000	*$'000*
Trade and bills receivables	**445,165**	501,356
Value-added tax recoverable	**202,658**	132,013
Deposits and prepayments	**39,824**	67,129
Others	**16,307**	8,247
	703,954	708,745

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

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

	2008	2007
	$'000	*$'000*
Within 30 days	**293,330**	382,055
31 days to 90 days	**136,415**	99,959
91 days to 180 days	**14,195**	16,027
Over 181 days	**1,225**	3,315
	445,165	501,356

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

9. Trade and other payables

	2008	2007
	$'000	*$'000*
Trade and bills payables	**485,069**	330,845
Receipts in advance	**95,724**	118,130
VAT payable	**4,343**	2,112
Amounts due to related companies	**3,942**	—
Other payables and accruals	**313,768**	304,871
	902,846	755,958

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

	2008	2007
	$'000	*$'000*
Within 30 days	**379,923**	231,829
31 days to 90 days	**62,698**	51,517
91 days to 180 days	**28,613**	33,964
Over 180 days	**13,835**	13,535
	485,069	330,845

FINAL DIVIDEND

The Board has recommended a final dividend of HK$0.080 (2007: HK$0.080) per share, subject to shareholders' approval at the forthcoming annual general meeting. This final dividend, if approved at the annual general meeting, together with the interim dividend of HK$0.110 per share (2007: HK$0.070), will make a total dividend of HK$0.190 (2007: HK$0.150) per share for the year ended 31 December 2008.

The proposed final dividend, if approved, will be paid on or about Thursday, 9 July 2009 to shareholders whose names appear on the Register of Members of the Company on 22 June 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 18 June 2009 to Monday, 22 June 2009, 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, 17 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

2008 was a year of changes and challenges. The global economy faced daunting challenges under the international financial crisis. The food safety issue lashed against various food companies in China while the fluctuation in hog supply and prices brought adverse impacts to the pork industry. The Chinese economy, however, was able to remain relatively stable when compared with other countries, achieving a 9.0% GDP growth in 2008.

During the financial year ended 31 December 2008 ("Review Period"), various food safety incidents aroused the public awareness of food safety. In addition, the Chinese government encouraged an orderly development of the slaughtering industry and implemented a series of regulations including the "Administrative Provision for Live Pig Slaughtering" and "Food Safety Regulations" in 2008. It is expected that small-scale slaughtering enterprises with low hygiene standards will be weeded out under the tightened regulations, and industry consolidation will be accelerated. It is foreseeable that the industry development becomes more favorable to large-scale slaughtering enterprises with higher operational efficiency and product quality.

The notable shortage of hog supply during the first half of 2008 was considerably eased in the second half of the year, because of various measures implemented by the Chinese government. Fluctuations in hog price in 2007 brought adverse impacts to the business environment and the livelihood of the people. The central government managed to stabilize hog price in the second half of 2008 by maintaining stable hog supply, providing subsidies on breeder pigs, encouraging optimized scale of production and implementing other measures to soothe the pressure brought by excess price volatility such as *Contingency Plan on Preventing Excessive Drop in Hog Price (Interim)*. Sufficient hog supply and relatively stable prices in turn provided a better business operating environment for the domestic hog slaughtering industry amid the fluctuating market conditions.

Business Review

Despite the drastic changes in the market environment in 2008, the Group maintained robust growth by leveraging on its high quality products, outstanding brand and market position, business strategy focusing on mid-to-high end markets, flexible pricing strategies, experienced management team and risk management policy. The higher margin low temperature meat products ("LTMP") and chilled pork remained the key drivers to the steady growth of the Group's revenue.

During the Review Period, the Group continued to expand its production capability and increase market supply through acquisitions, construction and expansion of new plants, in order to meet surging consumer demand. In addition, the Group believes that with its image of providing safe, healthy and quality products in the market. Yurun Food's sale was not adversely affected by the food safety incidents and the Company is able to maintain its competitiveness and strong growth in sales despite the economic downturn.

Product Quality and R&D

Product quality always tops Yurun Food's priority. Stringent quality control procedures were properly in place throughout the process of procurement, production, sales and logistics. The Group closely monitored the quality of hogs including selecting fine hog species and carried out detailed inspection to ensure the required hygiene standards were duly complied with.

The Group focused on research and development of mid-to-high end products. The R&D team of the Group comprised over 300 members focusing on the development of highly competitive new products. In 2008, the Group successfully launched nearly 100 new products including Spirit Sausage. These fresh, tasty, nutritious and convenient products were well received by the market.

Sales and Distribution

In order to further stabilize the sales and profitability, the Group continued to strengthen its brand promotion efforts during the Review Period to secure the sales of LTMP and chilled pork amid the competitive environment, through developing products with higher profit margins and optimizing product mix. In 2008, the turnover of chilled pork reached HK$8.130 billion, representing a remarkable increase of 73.8% over that of the corresponding period last year and accounting for 58.3% of total turnover prior to inter-segment elimination (2007: 49.5%) and 73.9% of total turnover of the upstream business segment (2007: 63.1%). Turnover of LTMP was HK$2.644 billion, representing an increase of 50.9% over that of the corresponding period last year and accounting for 19.0% of total turnover prior to inter-segment elimination (2007: 18.6%) and 89.8% of total turnover of downstream business segment (2007: 86.4%).

With respect to the target markets and distribution channels, the Group continued its strategy of focusing on direct sales with third party and supplemented it by distribution as a secondary sales channel. Yurun Food also optimized its product distribution network to further extend its reach to existing and potential customers in the domestic consumer market. At the same time, the Group further strengthened its co-operation with high-end hotels and catering chains so as to enhance the profitability of the Group.

Production Facilities and Production Capacity

To tap the growing market demands for Yurun Food's products, the Group continued to increase capacity through selective acquisitions, upgrading existing production facilities and constructing new plants.

With respect to its downstream business, the Group focused on supplementing market coverage, reducing bottlenecks and upgrading key production facilities. Annual production capacity of its downstream meat processing segment increased to 258,000 tons as at the end of 2008, representing a net increase of 40,000 tons as compared to that at the end of 2007.

With respect to its upstream slaughtering segment, the Group increased its production capacity by increasing its equity interests in the Hunan plant, acquiring production plants including Shangqiu and Jiamusi, etc, as well as upgrading its existing production facilities during the Review Period. The Group optimized its strategic production network across the nation and laid a solid foundation for sustaining growth in production capacity and capturing market demand. At the end of 2008, the yearly slaughtering capacity of the Group was 18.05 million heads, representing net increase of 4.00 million heads as compared to that at the end of 2007.

Financial Review

The Group recorded a turnover of HK$13.024 billion in 2008, representing an increase of 50.8% over the turnover of HK$8.635 billion in 2007. During the Review Period, the Group recorded a net profit of HK$1.138 billion (2007: HK$0.859 billion), representing an increase of 32.4% from that of the previous year. Diluted earnings per share was HK$0.736, representing an increase of 26.5% over HK$0.582 last year.

Turnover

Processed Meat Products

For the year ended 31 December 2008, the Group offered more than 1,200 different types of processed meat products. During the Review Period, the sales of processed meat products were HK$2.946 billion (2007: HK$2.029 billion), representing an increase of 45.2%. Despite the competitive environment, the Group achieved remarkable growth due to its strong brand recognition, marketing promotion, timely price adjustments, improved product mix and the launch of products with higher profit margins.

For the year ended 31 December 2008, the turnover of LTMP was HK$2.644 billion, representing a remarkable increase of 50.9% over HK$1.753 billion of last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 89.8% (2007: 86.4%) of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$0.302 billion (2007: HK$0.277 billion), accounting for approximately 10.2% (2007:13.6%) of the total turnover of the processed meat segment.

Chilled and Frozen Pork

Benefited from the strategic layout of our production plants, the Group's slaughtering volume grew 8.6% from the corresponding period of last year despite the limited hog supply in the first half of 2008 and the challenging market conditions in the second half of 2008. The market-based pricing strategy for chilled pork products offered the Group with flexibility in price adjustment such that stable profit margin could be achieved during the Review Period.

In 2008, total sales generated from the upstream business (before inter-segment elimination) increased by 48.5% to HK$11.008 billion over that of the corresponding period last year. Sales of chilled pork soared 73.8% to HK$8.130 billion, accounting for 73.9% of the total turnover (2007: 63.1%). Sales of frozen pork slightly increased by 5.2% to HK$2.877 billion, accounting for 26.1% of the total turnover (2007: 36.9%).

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 38.5% from HK$1.220 billion in 2007 to HK$1.690 billion in 2008 with a gross profit margin of 13.0% (2007: 14.1%). The decline in gross profit margin was mainly due to the reduction in the gross profit margin of frozen pork products and an increase in sales percentage of upstream products which generally had a lower profit margin than the downstream products.

With respect to the downstream processed meat products, the gross profit margin of LTMP has reduced slightly by 0.4 percentage point from last year's 28.4% to this year's 28.0%. The gross profit margin of HTMP was 16.8%, representing a slight increase of 0.1 percentage point over the corresponding period last year. The overall gross profit margin for the downstream business segment was 26.9%, an increase of 0.1 percentage point as compared to last year's 26.8%. The increase in the gross profit margin was mainly attributable to the brand recognition and improved product mix of the Group which offered it with flexibility in price adjustment to LTMP such that the Group was able to increase sales of products with higher margin.

With respect to its upstream business, the gross profit margin of chilled and frozen pork was 9.6% and 4.3% respectively (2007: 10.7% and 6.6% respectively). The overall profit margin of the upstream business was 8.2%, down 1.0 percentage point from 9.2% last year. The decline in gross margin of chilled pork was due to the shortage in hog supply in the first half of 2008 and increase in the sharing of fixed cost due to the decline in slaughtering volume of the Group's plants in Sichuan after the earthquake in May 2008. However, profit margin of the frozen pork segment was adversely affected by its less defensive nature in terms of pricing ability and inventory cost under slowing economies. To minimize the impact of inventory risk on profit margin amid hog price fluctuation, the Group pushed forward its business strategy of increasing the proportion of chilled pork which usually does not have any inventory and adopted a market-oriented pricing policy. In 2008, the turnover of chilled pork accounted for 73.9% of the turnover of the upstream business, substantially increased from 63.1% last year.

Other Operating Income

Other operating income mainly included government subsidies and negative goodwill. During the Review Period, other operating income of the Group was HK$0.344 billion (2007: HK$0.191 billion), attributable to subsidies granted by the Chinese government as business incentive of HK$99 million (2007: HK$123 million) and negative goodwill of HK$193 million (2007: HK$50 million) from acquisitions.

Operating Expenses

Operating expenses included distribution, administrative and other operating expenses. During the Review Period, the operating expenses of the Group were HK$0.859 billion, up 59.2% from HK$ 0.540 billion of the corresponding period last year. The increase was mainly attributable to higher transportation costs resulting from the increase in fuel costs, combined with an increase in advertising expenses and management costs due to the increase in staff number. During the Review Period, the operating expenses accounted for 6.6% of the turnover of the Group, representing only a slight increase of 0.4 percentage points of 6.2% in 2007. The stable operating margin reflected the Group's ability to keep operating expenses at a stable level along with its business expansion.

Operating Profit

In 2008, the operating profit of the Group was HK$1.175 billion, up 34.8% from HK$0.872 billion in 2007.

Net Financing Income

Net financing income of the Group in 2008 was HK$64.00 million and that for the year 2007 was HK$41.22 million. The increase in financing income was primarily due to exchange gains arising from translation of assets and liabilities denominated in foreign currencies.

Income Tax

The total income tax for the year ended 31 December 2008 was HK$101 million with an effective tax rate of 8.2%, representing a slight increase when compared to the income tax of HK$51.0 million and an effective tax rate of 5.6% in 2007. The increase in income tax and tax rate was due to the implementation of the 5% income withholding tax under the new tax policy effective from January 2008 imposed on dividend received by foreign investors from its investment in foreign invested enterprises.

Net Profit

Taking into accounts of all the above factors, the net profit of the Group increased 32.4% from HK$0.859 billion in 2007 to HK$1.138 billion in 2008. Net profit margin in 2008 was 8.7%, representing a decrease from 10.0% in 2007.

Financial Resources

Major financial resources of the Group were cash inflow generated from operating activities and bank loans. Cash inflow from operating activities in 2008 amounted to HK$1.222 billion. The Group recorded a cash balance and pledged deposits of bank loan of HK$1.808 billion as at 31 December 2008, representing a slight decrease of HK$0.188 billion when compared with that of last year.

As at 31 December 2008, the Group had HK$1.928 billion outstanding bank loans. Whilst funds were used for strategic acquisitions and investments in production facilities during the Review Period, the Group maintained prudent financial management and retained sufficient working capital for day to day operating activities and other funding requirements in 2008.

Assets and Liabilities

As at 31 December 2008, the total assets and total liabilities of the Group were HK$8.321 billion and HK$3.086 billion respectively, representing an increase of HK$1.944 billion and HK$1.040 billion as compared to total assets and total liabilities as at 31 December 2007, respectively.

As at 31 December 2008, the equity attributable to equity holders of the Company was HK$5.215 billion, representing an increase of HK$1.076 billion as compared to HK$4.139 billion as at 31 December 2007.

As at 31 December 2008, the 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) of the Group was 28.8%, representing a slight increase from 23.5% as at 31 December 2007. However, excluding the cash balance and pledged deposits of bank loan, the net gearing ratio was only 5.4%, reflecting a healthy financial position of the Group.

As at 31 December 2008, certain properties and lease prepayments of the Group with a carrying amount of HK$45.72 million and HK$31.97 million respectively (31 December 2007: HK$44.61 million and HK$30.90 million respectively) were pledged against certain bank loans totalling HK$90.74 million (31 December 2007: HK$94.48 million). Bank loan facilities of the Group totalling HK$1.848 billion (31 December 2007: HK$1.112 billion, were secured by pledged deposits of HK$598 million (31 December 2007: HK$29.13 million).

Human Resources

As at 31 December 2008, the Group had 17,385 (2007: 14,328) employees in the PRC and Hong Kong. During the Review Period, total staff cost was HK$0.367 billion, accounting for 2.8% of the turnover of the Group (corresponding period of 2007: HK$0.267 billion, accounting for 3.1% 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 reward the employees. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

Prospect

Although we expect the market will still be highly challenging in 2009, we believe the pork industry of China would be less affected by the economic slowdown. The Group believes that by leveraging on its high quality products, strong brand recognition, strategic sales distribution channels, flexible pricing strategy and experienced management, the Group will continue to expand its business and further enhance the competitiveness of its brand products.

Moreover, it is expected that the Chinese government will continue to implement regulations to ensure the quality of the slaughtering industry and facilitate healthy industry growth. Small-scale slaughtering enterprises with low hygiene standards are expected to be weeded out as a result of the tightened regulations, which would in turn accelerate the industry consolidation and more opportunities for merger and acquisition would arise. The Group intends to strengthen its slaughtering business through various acquisitions and by enhancing the Group's upstream and downstream business.

It has always been the philosophy of Yurun Food to produce high quality food and deliver customers with healthy, quality, delicious and high-end meat products. Looking ahead, we are providing high quality products to consumers under stringent quality control measures so as to strengthen our brand image and promote business development. Given the economic downturn, the Group will strive to achieve further development through prudent risk assessment and business consolidation.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has fully complied 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 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 issue of 412,000 shares of the Company under the Share Option Scheme.

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 annual results for the year ended 31 December 2008.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 23 March 2009

As at the date of this announcement, the executive Directors are Zhu Yicai, Zhu Yiliang, 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*