# 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 2009

**Financial Highlights**

| | **2009** | 2008 | |
|---|---|---|---|
| | ***(HK$ in million)*** | *(HK$ in million)* | Growth |
| Turnover | **13,870** | 13,024 | 6.5% |
| Gross Profit | **2,161** | 1,690 | 27.9% |
| Profit attributable to shareholders | **1,745** | 1,138 | 53.4% |
| Diluted earnings per share (HK$) | **1.074** | 0.736 | 45.9% |

In 2009, economic and business environments both experienced enormous changes. Enterprises faced real challenge in contingent and operational management. Yurun Food, however, continued to sustain remarkable growth and increase profitability. The Ministry of Commerce of the People's Republic of China promulgated the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" in late December 2009. It was expected that the Guideline would provide great momentum to industry consolidation and growth in market share and business of the Group in future.

- In 2009, the Group's profit attributable to shareholders reached HK$1,745 million, representing an increase of 53.4% compared to that of last year.

- The Group's turnover increased by 6.5% to HK$13.87 billion.

- Diluted earnings per share was HK$1.074, representing an increase of 45.9% over that of 2008.

## 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 2009 ("Review Year") together with the comparative figures of the corresponding period in 2008 as follows:

## CONSOLIDATED INCOME STATEMENT
**For the year ended 31 December 2009**
*(Expressed in Hong Kong dollars)*

| | Note | **2009** **$'000** | 2008 $'000 |
|---|---|---|---|
| **Turnover** | 3 | **13,870,428** | 13,023,901 |
| Cost of sales | | **(11,709,551)** | (11,333,916) |
| **Gross profit** | | **2,160,877** | 1,689,985 |
| Other operating income | 5 | **624,641** | 344,166 |
| Distribution expenses | | **(509,731)** | (546,580) |
| Administrative and other operating expenses | | **(320,053)** | (312,329) |
| **Results from operating activities** | | **1,955,734** | 1,175,242 |
| Finance income | | **51,486** | 136,931 |
| Finance expenses | | **(115,890)** | (72,930) |
| **Net finance (expenses)/income** | | **(64,404)** | 64,001 |
| **Share of loss of an associate (net of income tax)** | | **(113)** | (781) |
| **Profit before income tax** | 6 | **1,891,217** | 1,238,462 |
| Income tax expense | 7 | **(142,573)** | (101,449) |
| **Profit for the year** | | **1,748,644** | 1,137,013 |

| | Note | **2009** | 2008 |
|---|---|---|---|
| | | ***$'000*** | *$'000* |
| **Attributable to:** | | | |
| Equity holders of the Company | | **1,745,288** | 1,137,781 |
| Minority interests | | **3,356** | (768) |
| **Profit for the year** | | **1,748,644** | 1,137,013 |
| **Earnings per share** | | | |
| Basic | 9(a) | **$ 1.089** | $ 0.744 |
| Diluted | 9(b) | **$ 1.074** | $ 0.736 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31 December 2009**
*(Expressed in Hong Kong dollars)*

| | *Note* | **2009** | 2008 |
|---|---|---|---|
| | | ***$'000*** | *$'000* |
| **Profit for the year** | | **1,748,644** | 1,137,013 |
| **Other comprehensive income for the year (after reclassification adjustments)** | 10 | | |
| Foreign currency translation differences for foreign operations | | **6,750** | 194,180 |
| Available-for-sale financial assets: | | | |
| - changes in fair value recognised during the year | | **55** | — |
| - reclassification adjustment for impairment loss on available-for-sale financial assets | | **1,932** | — |
| | | **8,737** | 194,180 |
| **Total comprehensive income for the year** | | **1,757,381** | 1,331,193 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **1,753,958** | 1,321,109 |
| Minority interests | | **3,423** | 10,084 |
| **Total comprehensive income for the year** | | **1,757,381** | 1,331,193 |

**CONSOLIDATED BALANCE SHEET**
**At 31 December 2009**
*(Expressed in Hong Kong dollars)*

| | Note | **2009** **$'000** | 2008 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **5,065,383** | 2,608,267 |
| Investment properties | | **214,093** | 220,831 |
| Lease prepayments | | **1,407,155** | 1,083,832 |
| Goodwill | | **86,374** | 86,268 |
| Investment in an associate | | **2,805** | 2,915 |
| Non-current prepayments | | **936,738** | 1,052,535 |
| Deferred tax assets | | **21,025** | 10,908 |
| | | **7,733,573** | 5,065,556 |
| **Current assets** | | | |
| Inventories | | **936,129** | 703,455 |
| Other investments | | **6,870** | 1,134 |
| Current portion of lease prepayments | | **30,722** | 23,074 |
| Trade and other receivables | 11 | **926,567** | 703,954 |
| Income tax recoverable | | **378** | 16,546 |
| Pledged deposits | | **758,759** | 598,525 |
| Time deposits | | **76,817** | — |
| Cash and cash equivalents | | **2,465,128** | 1,209,092 |
| | | **5,201,370** | 3,255,780 |
| **Current liabilities** | | | |
| Bank loans | | **3,108,093** | 1,095,049 |
| Finance lease liabilities | | **474** | 496 |
| Trade and other payables | 12 | **1,084,750** | 902,846 |
| Income tax payable | | **19,315** | 19,776 |
| | | **4,212,632** | 2,018,167 |
| **Net current assets** | | **988,738** | 1,237,613 |
| **Total assets less current liabilities** | | **8,722,311** | 6,303,169 |

| | Note | **2009** | 2008 |
|---|---|---|---|
| | | ***$'000*** | *$'000* |
| **Non-current liabilities** | | | |
| Bank loans | | **24,361** | 833,062 |
| Finance lease liabilities | | **164,414** | 177,967 |
| Deferred tax liabilities | | **133,357** | 57,045 |
| | | **322,132** | 1,068,074 |
| **Net assets** | | **8,400,179** | 5,235,095 |
| **Equity** | | | |
| Share capital | 13 | **167,322** | 153,107 |
| Reserves | | **8,202,380** | 5,061,849 |
| **Total equity attributable to equity holders of the Company** | | **8,369,702** | 5,214,956 |
| **Minority interests** | | **30,477** | 20,139 |
| **Total equity** | | **8,400,179** | 5,235,095 |

*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 2009 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. Changes in accounting policies**

The International Accounting Standards Board ("IASB") has issued a new International Financial Reporting Standard ("IFRS"), a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 8, "Operating segments"

- International Accounting Standard ("IAS") 1 (revised 2007), "Presentation of financial statements"

- Improvements to IFRSs (2008)

- Amendments to IAS 27, "Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate"

- Amendments to IFRS 7, "Financial instruments: Disclosures - improving disclosures about financial instruments"

- IAS 23 (revised 2007), "Borrowing costs"

- Amendments to IFRS 2, "Share-based payment - vesting conditions and cancellations"

The adoption of improvements to IFRSs (2008) and the amendments to IFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters and more consistent with internal reporting provided to the Group's most senior executive management. As the Group's internal reporting to the Group's chief operating decision maker is disaggregated into segments based on products, the adoption of IFRS 8 has had no material impact on the general presentation of segment information.

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to IFRS 7, the consolidated financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

— The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

— IAS 23 (revised 2007) requires that, effective from 1 January 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and has eliminated the option of immediate recognition of such borrowing costs as an expense. Previously, the Group immediately recognised all borrowing costs as an expense. In accordance with the transitional provisions in the standard, the Group will apply the new standard prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on and after the effective date. The change in accounting policy had no material impact on assets, profit or earnings per share for the year ended 31 December 2009.

## 3. 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 rebates.

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

### (a) Segment results, assets and liabilities

| | Chilled and frozen meat | | Processed meat products | | Inter-segment elimination | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Revenue from external customers | **10,581,888** | 10,077,726 | **3,288,540** | 2,946,175 | **—** | — | **13,870,428** | 13,023,901 |
| Inter-segment revenue | **1,163,898** | 930,077 | **—** | — | **(1,163,898)** | (930,077) | **—** | — |
| Reportable segment revenue | **11,745,786** | 11,007,803 | **3,288,540** | 2,946,175 | **(1,163,898)** | (930,077) | **13,870,428** | 13,023,901 |
| Reportable segment profit | **1,422,570** | 860,700 | **576,341** | 343,984 | **(8,378)** | (1,236) | **1,990,533** | 1,203,448 |
| Depreciation and amortisation for the year | **116,308** | 76,464 | **62,662** | 52,565 | **—** | — | **178,970** | 129,029 |
| Unallocated depreciation and amortisation for the year | | | | | | | **291** | 153 |
| | | | | | | | **179,261** | 129,182 |
| Segment assets | **8,079,909** | 4,762,069 | **1,527,264** | 1,736,408 | **—** | — | **9,607,173** | 6,498,477 |
| Investment in an associate | **—** | — | **2,805** | 2,915 | **—** | — | **2,805** | 2,915 |
| Reportable segment assets | **8,079,909** | 4,762,069 | **1,530,069** | 1,739,323 | **—** | — | **9,609,978** | 6,501,392 |
| Reportable segment liabilities | **(774,451)** | (533,236) | **(477,610)** | (551,972) | **—** | — | **(1,252,061)** | (1,085,208) |
| Capital expenditure incurred during the year | **2,638,590** | 1,645,097 | **87,278** | 417,529 | | | **2,725,868** | 2,062,626 |
| Unallocated capital expenditure incurred during the year | | | | | | | **1,708** | 1,087 |
| | | | | | | | **2,727,576** | 2,063,713 |

(b) **Reconciliations of reportable segment profit, assets and liabilities**

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| *Profit* | | |
| Reportable segment profit | **1,998,911** | 1,204,684 |
| Elimination of inter-segment profits | **(8,378)** | (1,236) |
| Reportable segment profit derived from Group's external customers | **1,990,533** | 1,203,448 |
| Share of profit less loss of an associate | **(113)** | (781) |
| Net finance (expenses)/income | **(64,404)** | 64,001 |
| Income tax expense | **(142,573)** | (101,449) |
| Unallocated head office and corporate expenses | **(34,799)** | (28,206) |
| Consolidated profit for the year | **1,748,644** | 1,137,013 |
| *Assets* | | |
| Reportable segment assets | **9,609,978** | 6,501,392 |
| Deposits and cash and cash equivalents | **3,300,704** | 1,807,617 |
| Deferred tax assets | **21,025** | 10,908 |
| Unallocated head office and corporate assets | **3,236** | 1,419 |
| Consolidated total assets | **12,934,943** | 8,321,336 |
| *Liabilities* | | |
| Reportable segment liabilities | **1,252,061** | 1,085,208 |
| Bank loans | **3,132,454** | 1,928,111 |
| Deferred tax liabilities | **133,357** | 57,045 |
| Unallocated head office and corporate liabilities | **16,892** | 15,877 |
| Consolidated total liabilities | **4,534,764** | 3,086,241 |

## 4. Business combinations

***Tenger (Henan) Livestock Technology Company Limited ("Tenger")***

On 8 January 2009, the Group entered into an asset transfer agreement to acquire the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Tenger from Henan Province Fugou Local County Government (河南省扶溝縣人民政府) at a cash consideration of $11,000. In order to support regional economic development, the government rendered a bargain to the Group on acquisition which resulted in a negative goodwill of $119,270,000.

*Tengzhou Dongqi Meat Processing Factory ("Tengzhou Dongqi ")*

On 10 February 2009, the Group entered into a share transfer agreement to acquire the entire equity interest of Tengzhou Dongqi at a cash consideration of $181,904,000.

*Keshan Meat Processing Factory ("Keshan")*

On 30 June 2008, the Group acquired the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Keshan from Heilongjiang Province Keshan Local County Government (黑龍江省克山縣人民政府), at a cash consideration of $11,000. In order to support regional economic development, the government rendered a bargain to the Group on acquisition which resulted in a negative goodwill of $44,606,000.

*Changchun Food Group Company ("Changchun Food")*

On 28 December 2006, the Group entered into an acquisition agreement with the Changchun Kuancheng District Finance Bureau (長春市寬城區財政局) to acquire the business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Changchun Food at a consideration of $43,339,000. The transfer of assets was completed on 25 September 2008. In order to support regional economic development, the government rendered a bargain to the Group on acquisition which resulted in a negative goodwill of $148,264,000.

*Shangqiu Tianhui Food Co., Ltd. ("Shangqiu Tianhui")*

On 24 October 2008, the Group acquired the entire equity interest of Shangqiu Tianhui at a cash consideration of $306,818,000. Goodwill of $86,268,000 arose in the business combination because of the expected synergies and future market development.

## 5. Other operating income

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Government subsidies | **425,593** | 99,017 |
| Recognition of negative goodwill arising on business combinations *(note 4)* | **119,270** | 192,870 |
| Rental income | **22,858** | 17,899 |
| Sales of scrap | **3,115** | 3,236 |
| Sundry income | **53,805** | 31,144 |
| | **624,641** | 344,166 |

## 6. Profit before income tax

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

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Cost of inventories | **11,709,551** | 11,333,916 |
| Depreciation | **152,875** | 109,397 |
| (Gain)/loss on disposal of property, plant and equipment | **(14,950)** | 6,699 |
| Amortisation of lease prepayments | **26,386** | 19,785 |
| Interest on bank loans | **89,109** | 65,001 |

## 7. Income tax expense

***Income tax expense in the consolidated income statement represents:***

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Current tax expense** | | |
| Current year | **68,888** | 38,318 |
| Under-provision in respect of prior years | **7,604** | 3,746 |
| | **76,492** | 42,064 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **66,081** | 59,385 |
| Income tax expense in the consolidated income statement | **142,573** | 101,449 |

(a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands ("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 2009 and 2008.

(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 2009 (2008: 25%), 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. 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) All enterprises engaged in the primary processing of agricultural products are exempted from PRC enterprise income tax. As a result, the profits from slaughtering operations are exempted from PRC enterprise income tax for the years ended 31 December 2009 and 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 PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement between the PRC and Hong Kong, the investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

(e) Under the 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%. The Group may be deemed to be a PRC resident enterprise and subject to PRC enterprise income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

## 8. Dividends

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

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Interim dividend declared and paid of $0.150 (2008: $0.110) per share | **250,870** | 168,417 |
| Final dividend proposed after the balance sheet date of $0.150 (2008: $0.080) per share | **250,983** | 122,485 |
| | **501,853** | 290,902 |

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

## 9. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year of $1,745,288,000 (2008: $1,137,781,000) and the weighted average number of 1,603,166,000 (2008: 1,529,635,000) shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the Company for the year of $1,745,288,000 (2008: $1,137,781,000) and the weighted average number of 1,624,900,000 (2008: 1,545,133,000) shares.

## 10. Other comprehensive income

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2009 and 2008.

## 11. Trade and other receivables

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Trade receivables | **575,682** | 445,165 |
| Value-added tax recoverable | **275,188** | 202,658 |
| Deposits and prepayments | **32,462** | 39,824 |
| Others | **43,235** | 16,307 |
| | **926,567** | 703,954 |

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

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

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 30 days | **296,053** | 293,330 |
| 31 days to 90 days | **130,388** | 136,415 |
| 91 days to 180 days | **148,144** | 14,195 |
| Over 180 days | **1,097** | 1,225 |
| | **575,682** | 445,165 |

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

**12. Trade and other payables**

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Trade payables | **439,748** | 485,069 |
| Receipts in advance | **110,616** | 95,724 |
| Deposits from customers | **45,223** | 32,775 |
| Salary and welfare payables | **78,402** | 74,860 |
| Value-added tax payable | **1,013** | 4,343 |
| Amounts due to related companies | **4,998** | 3,942 |
| Derivative financial instruments | **3,779** | — |
| Other payables and accruals | **400,971** | 206,133 |
| | **1,084,750** | 902,846 |

An ageing analysis of trade payables is analysed as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 30 days | **343,132** | 379,923 |
| 31 days to 90 days | **61,434** | 62,698 |
| 91 days to 180 days | **13,402** | 28,613 |
| Over 180 days | **21,780** | 13,835 |
| | **439,748** | 485,069 |

**13. Share capital**

On 28 July 2009, 130,000,000 new ordinary shares of the Company at a par value of $0.1 were issued at a price of $13.23 per share. During the year ended 31 December 2009, options were exercised to subscribe for 12,154,000 (2008: 4,113,000) new ordinary shares of the Company at a price of $7.46 per share.

**14. Comparative figures**

As a result of the application of IAS 1 (Revised 2007), "Presentation of financial statements" and IFRS 8 "Operating segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

During the year ended 31 December 2008, the initial accounting for the acquisitions of Changchun Food Group Company was determined provisionally. As required by IFRS 3, "Business combinations", comparative figures have been adjusted to recognise the adjustments to those provisional values as a result of completing the initial accounting as if the initial accounting had been completed on the respective acquisition dates. Certain assets items of Changchun Good Group Company as at 31 December 2009 have been reclassified as a result of completing the initial accounting. Further details on the acquisition of Changchun Food Group Company are disclosed in note 4.

## FINAL DIVIDEND

The Board recommended a final dividend of HK$0.150 (2008: 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$0.150 per share (2008: HK$0.110), will make a total dividend of HK$0.300 (2008: HK$0.190) per share for the year ended 31 December 2009.

The proposed final dividend, if approved, will be paid on or about Monday, 14 June 2010 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 26 May 2010.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 24 May 2010 to Wednesday, 26 May 2010, 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 Thursday, 20 May 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

In 2009, the business environment remained challenging against a backdrop of global economic volatility. However, supported by the RMB4 trillion stimulus package implemented by the Chinese Government in early 2009, domestic consumption in China underwent rapid expansion which accelerated economic recovery and eased gloom of the financial tsunami. China even recorded a GDP growth rate of 8.7%. Benefited from the favourable macroeconomic environment and its proactive expansion in production capacity as well as improvement in nation-wide hog slaughtering capacity, the Group not only overcame the challenges brought by the fluctuating hog prices during the Review Year, but also maintained a strong and remarkable profit growth over the last consecutive years.

During the Review Year, hog price experienced enormous fluctuations, hitting its low level in early 2009 and rebounding subsequently. In early 2009, as a result of the financial tsunami and global outbreak of H1N1 influenza, hog price dropped drastically. The Chinese Government subsequently increased nation-wide frozen pork reserves in accordance with the "Contingency Plan on Preventing Excessive Drop in Hog Price" in June 2009 and the market regained confidence. Hog price climbed from its low level in the second half of 2009. Benefited from the global economic recovery and increasing domestic demand for high-quality pork products, and leveraging on its brand recognition, high product hygiene and safety standards and strong bargaining power, Yurun Food not only maintained stable selling price during the Review Year, but also achieved substantial growth in gross margin by further improving market distribution and economies of scale.

During the Review Year, the hog slaughtering industry in China achieved further steady development. Following the implementation of a series of regulations such as the "Administrative Provision for Live Pig Slaughtering" and the "Food Safety Law" during the year to regulate the industry development, the Chinese Government further promulgated the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" (the "Guideline") in late December 2009. The Guideline aims to eliminate 30% of outdated manual and semi-mechanical hog slaughtering capacity by 2013, and 50% by 2015. The Guideline also restricts the issue of hog slaughter licence to no more than 4 licences in cities with a population of less than 5 million to eliminate outdated enterprises. In addition, through acceleration of industry consolidation, market share of small packaged pork products and chilled pork products are expected to increase from 10% to 15% and from 10% to 20% respectively by 2013, and to 20% and 30% respectively by 2015 in regions above county level.

**Business Review**

Despite the challenging market conditions in 2009, Yurun Food was able to maintain stable business growth by leveraging on its leading market position and strategic expansion of production capacity in China. Low temperature meat products ("LTMP") and chilled pork products which have higher margins continued to be the key drivers to the Group's business growth and source of steady revenue amidst the volatile economic environment.

Furthermore, benefited from its strong brand recognition and bargaining power, the average selling price of the Group's products remained competitive, contributing to remarkable results in overall gross profit margin despite fluctuation in domestic hog price.

*Product Quality and R&D*

It has always been Yurun Food's aim to produce products of highest quality. We implemented stringent internal quality control over every production process, from procurement, production, sales to logistics. Leveraging on its stringent quality control, Yurun Food successfully became an icon of food safety and quality among customers.

In addition, the Group continued to expand its research and development team, focusing on the R&D of mid-to-high end products, developing competitive products and creating new trends in food consumption so as to maintain its advantage and strengthen its leading position in the industry. Given the increasing urban population of middle class in China, demand for high quality mid-to-high end meat products has correspondingly increased. During the Review Year, the Group's overall sales volume from upstream and downstream businesses increased significantly to 982,000 tons, up 228,000 tons as compared to that of last year.

*Sales and Distribution*

As the Group's high-end products with relatively higher gross margin and added value, LTMP and chilled meat continued to play an important role in contributing to the Group's overall turnover and profit during the Review Year. In 2009, turnover attributable to sales of chilled pork reached HK$9.421 billion, representing an increase of 15.9% over that of last year, accounting for 62.7% of total turnover prior to inter-segment eliminations (2008: 58.3%), and 80.2% of total turnover of the upstream business segment (2008: 73.9%). Turnover attributable to LTMP was HK$3.081 billion, representing an increase of 16.5% over that of last year, accounting for 20.5% of total turnover prior to inter-segment eliminations (2008: 19.0%), and 93.7% of total turnover of the downstream business segment (2008: 89.8%).

*Production Facilities and Production Capacity*

To enlarge its market share and satisfy growing market demand for its products, the Group continued to increase its production capacity through selective acquisitions, improvements in existing production facilities and construction of new plants.

As at the end of 2009, the Group's annual downstream meat processing capacity was 278,000 tons. The Group will continue to expand its capacity in coming years in an orderly manner, targeting to increase market coverage, reduce bottlenecks and upgrade key production facilities.

With respect to its upstream slaughtering segment, the slaughtering capacity of the Group reached 25.55 million heads per year by end of 2009, representing an increase of 7.50 million heads as compared to that at the end of 2008.

**Financial Review**

The Group recorded a turnover of HK$13.870 billion in 2009, representing an increase of 6.5% as compared to HK$13.024 billion last year. Despite a substantial drop of over 20% in hog price during the year, the Group continued to record a sales increase in 2009 by leveraging on its "Yurun" brand and nation-wide production network. Sales of upstream chilled pork and downstream LTMP increased significantly by 42.2% and 20.4% respectively as compared to the same period last year. Furthermore, the Group maintained its existing pricing strategy by setting selling price with reference to prevailing market price. Average selling price of upstream products increased due to rebounding hog price during the second half of 2009, and as a result, turnover from this segment accordingly increased by 6.7% from HK$11.008 billion in 2008 to HK$11.746 billion in 2009. The average selling price of downstream products remained stable as a result of strong brand recognition and pricing power amidst fluctuating hog price, and sales from this segment increased 11.6% in 2009 as compared that of last year as a result of the increasing consumer demand for high quality meat products. In 2009, the Group recorded a net profit of HK$1.745 billion (2008: HK$1.138 billion), up 53.4% from that of last year. Diluted earnings per share was HK$1.074, representing a year on year growth of 45.9% over HK$0.736 of last year.

**Turnover**

***Processed Meat Products***

During the Review Year, sales of processed meat products reached HK$3.289 billion (2008: HK$2.946 billion), up 11.6% from that of 2008. Despite the difficult market environment, the Group achieved satisfactory growth due to its strong brand recognition and marketing efforts, improved product mix and launch of products with higher profit margins.

During the Review Year, turnover of LTMP was HK$3.081 billion, representing an increase of 16.5% as compared to HK$2.644 billion in 2008. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 93.7%

(2008: 89.8%) of the total turnover of the processed meat segment. Turnover attributable to high temperature meat products ("HTMP") was HK$208 million (2008: HK$302 million), accounting for approximately 6.3% (2008: 10.2%) of the total turnover of the processed meat segment.

***Chilled and Frozen Pork***

During the Review Year, given its flexible strategic planning in distribution and production network, the Group achieved growth in slaughtering volume by 35.5% as compared to that of last year. The Group continued to expand its market share and maintained strong competitive advantages and leading position in the industry.

In 2009, the total sales generated from the upstream business (before inter-segment eliminations) increased by 6.7% to HK$11.746 billion year on year. Sales of chilled pork increased by 15.9% to HK$9.421 billion, accounting for approximately 80.2% of the total turnover of the upstream business (2008: 73.9%). Sales of frozen pork decreased by 19.2% to HK$2.325 billion, accounting for 19.8% of the total turnover of the upstream business (2008: 26.1%).

**Gross Profit and Gross Profit Margin**

Gross profit of the Group increased by 27.9% from HK$1.690 billion in 2008 to HK$2.161 billion in 2009. Gross profit margin increased by 2.6 percentage points to 15.6% from 13.0% in 2008. Increase in gross profit margin during the Review Year was mainly because the Group was able to maintain stable profit on the back of its strong competitive advantages and bargaining power and by increasing upstream slaughtering volume in the first half of 2009 despite falling hog price by then. Furthermore, the Group was able to maintain its existing pricing strategy by setting selling price with reference to prevailing market price which rebounded in the second half of 2009 and to expand sales of downstream products with higher margins. At the same time, the Group continued to expand its market share to further enhance economies of scale in order to further maximize gross profit margins of both upstream and downstream businesses.

With respect to downstream products, gross profit margin for LTMP was 29.0%, representing an increase of 1 percentage point as compared to 28.0% of last year. Gross profit margin for HTMP was 21.4%, representing a significant increase of 4.6 percentage points as compared to that of last year. Overall gross profit margin for the downstream segment was 28.6%, an increase of 1.7 percentage points as compared to 26.9% of last year.

With respect to upstream business, gross profit margin of chilled and frozen pork was 11.5% and 6.3% respectively (2008: 9.6% and 4.3% respectively). The overall gross profit margin was 10.4%, representing a remarkable increase of 2.2 percentage points as compared to 8.2% of last year.

**Other Operating Income**

During the Review Year, other operating income of the Group was HK$625 million, representing a significant growth as compared to HK$344 million in 2008. Other operating income mainly included government subsidies and negative goodwill. Government subsidies increased significantly to HK$426 million from HK$99 million in 2008, which was mainly attributable to the continued incentives provided by the Chinese Government to support the development of agricultural industry. Negative goodwill arising from acquisition was HK$119 million, decreasing from HK$193 million in 2008.

**Operating Expenses**

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$830 million, representing a decrease of 3.4% as compared to HK$859 million in 2008. Operating expenses represented 6.0% of the Group's turnover, decrease of 0.6 percentage point as compared to 6.6% of last year, demonstrating that the Group was able to control cost effectively amid rapid business expansion.

**Operating Profit**

In 2009, operating profit of the Group was HK$1.956 billion, up 66.4% from HK$1.175 billion of last year.

**Finance Expenses**

Net finance expenses of the Group was HK$64 million in 2009 while the Group recorded a net finance income of HK$64 million in 2008.

**Income Tax**

The total income tax for the year ended 31 December 2009 was HK$143 million, an increase of 40.5% as compared to HK$101 million of last year. Effective tax rate for the year was 7.5%, representing a slight decrease as compared to 8.2% in 2008.

**Net Profit**

Taking into account of all the above factors, net profit of the Group soared 53.4% from HK$1.138 billion in 2008 to HK$1.745 billion in 2009. Net profit margin for the Review Year was 12.6%, representing a significant increase of 3.9 percentage points from 8.7% in the same period last year. In general, the Group realized remarkable growth in all aspects, proving strong competitive advantage of the Group in strategic planning and business operations.

**Financial Resources**

The major financial resources of the Group were cash inflow generated from operating activities during the Review Year, and the net proceeds of HK$1.675 billion from the placing of 130 million shares at a price of HK$13.23 per share in July 2009. The Group's cash inflow from operating activities in 2009 amounted to HK$1.569 billion with a cash balance and pledged deposits of bank loan of HK$3.301 billion as at 31 December 2009, representing an increase of HK$1.493 billion as compared to HK$1.808 billion as at 31 December 2008.

As at 31 December 2009, the Group had an outstanding loan of HK$3.132 billion, representing an increase of HK$1.204 billion from HK$1.928 billion as at end of 2008. Taking into account of funds used for strategic acquisitions and investments in production facilities during the Review Year, the Group maintained prudent financial management and retained sufficient working capital for daily operating activities and other funding requirements.

**Assets and Liabilities**

As at 31 December 2009, the total assets and total liabilities of the Group were HK$12.935 billion and HK$4.535 billion respectively, representing an increase of HK$4.614 billion and HK$1.449 billion as at 31 December 2008 respectively.

As at 31 December 2009, equity attributable to equity holders of the Company was HK$8.370 billion, representing an increase of HK$3.155 billion as compared to HK$5.215 billion as at 31 December 2008.

As at 31 December 2009, 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) of the Group was 28.3%, which was similar to the 28.8% as at 31 December 2008.

**Charges on Assets**

As at 31 December 2009, certain properties and lease prepayments of the Group with a carrying amount of HK$44.36 million and HK$31.33 million respectively (31 December 2008: HK$45.72 million and HK$31.97 million respectively) were pledged against certain bank loans with a total amount of HK$77.58 million (31 December 2008: HK$90.74 million).

As 31 December 2009, the secured bank loans totalling HK$380 million were secured by pledged deposits denominated in RMB amounting to HK$378 million (2008: Nil).

At 31 December 2009, intragroup bills payable totalling HK$863 million (2008: Nil) were secured by pledged deposits amounting to HK$380 million (2008: Nil). The corresponding intragroup bills receivable totalling HK$863 million (2008: Nil) were discounted with recourse for proceeds of HK$861 million.

**Significant Investment, Material Acquisition and Disposals of Subsidiaries, Future Plans for Material Investments or Acquisition of Capital Assets**

The preliminary capital expenditure plan for 2010 approved by the Board amounted to approximately HK$2.0 billion. As at the date of this announcement, the budget and plan are yet to be finalised and the Group was not at this stage identified any particular targets or opportunities. Save as disclosed herein, the Group did not hold any other substantial investment or have any substantial acquisition and sale of subsidiaries during the Review Year. As at the date of this announcement, the Group has no plan to make any substantial investment in or acquisition of capital assets.

**Exposure to Fluctuations in Exchange Rates and Related Hedges**

Most of the revenue of the Group was settled in Renminbi and our assets and liabilities are also mainly denominated in Renminbi. In this regard, the exposure to fluctuations in exchange rates are minimal to the Group. In addition, the Group did not use any financial instrument for hedging during the year.

**Human Resources**

As at 31 December 2009, the Group had 16,458 (2008: 17,385) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$413 million, accounting for 3.0% of the turnover of the Group (2008: HK$367 million, accounting for 2.8% of the turnover of the Group).

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 employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

## 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 as 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 Issuers contained in Appendix 10 to the Listing Rules ("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 12,154,000 shares of the Company under the share option scheme and the placing of 130,000,000 new ordinary shares to investors in late July as set out in the Company's announcement dated 24 July 2009.

## 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 2009.

By Order of the Board
**Zhu Yicai**
*Chairman*

Hong Kong, 29 March 2010

*As at the date of this announcement, the executive directors are Zhu Yicai, Zhu Yiliang, Feng Kuande, Ge Yuqi and Yu Zhangli; the non-executive directors are Jiao Shuge (alias Jiao Zhen), Wang Kaitian and Li Chenghua; and the independent non-executive directors are Gao Hui, Qiao Jun and Chen Jianguo.*

* *For identification purposes only*