# 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 2012

### SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") hereby announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 (the "Review Year") together with the comparative figures of the corresponding period in 2011 as follows:

**CONSOLIDATED INCOME STATEMENT**
***For the year ended 31 December 2012***

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Turnover** | 3 | **26,781,632** | 32,315,193 |
| Cost of sales | | **(26,383,899)** | (29,530,416) |
| **Gross profit** | | **397,733** | 2,784,777 |
| Other operating income | 4 | **944,292** | 703,312 |
| Distribution expenses | | **(743,508)** | (757,907) |
| Administrative and other operating expenses | | **(1,020,740)** | (788,065) |
| **Results from operating activities** | | **(422,223)** | 1,942,117 |
| Finance income | | **64,564** | 138,585 |
| Finance costs | | **(209,476)** | (174,816) |
| **Net finance costs** | | **(144,912)** | (36,231) |
| **Share of losses of associates (net of income tax)** | | **(250)** | (299) |
| **Share of loss of a jointly controlled entity (net of income tax)** | | **(2,185)** | (114) |
| **(Loss)/profit before income tax** | 5 | **(569,570)** | 1,905,473 |
| Income tax expense | 6 | **(41,537)** | (99,532) |
| **(Loss)/profit for the year** | | **(611,107)** | 1,805,941 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(605,455)** | 1,799,088 |
| Non-controlling interests | | **(5,652)** | 6,853 |
| **(Loss)/profit for the year** | | **(611,107)** | 1,805,941 |
| **(Loss)/earnings per share** | | | |
| Basic | 8(a) | **HK$(0.332)** | HK$0.989 |
| Diluted | 8(b) | **HK$(0.332)** | HK$0.985 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2012*

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(611,107)** | 1,805,941 |
| **Other comprehensive income for the year (after reclassification adjustments)** | *9* | | |
| Foreign currency translation differences for foreign operations | | **(14,193)** | 553,647 |
| **Total comprehensive income for the year** | | **(625,300)** | 2,359,588 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(619,598)** | 2,350,473 |
| Non-controlling interests | | **(5,702)** | 9,115 |
| **Total comprehensive income for the year** | | **(625,300)** | 2,359,588 |

## CONSOLIDATED BALANCE SHEET

*At 31 December 2012*

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **14,518,311** | 12,635,472 |
| Investment properties | | **207,026** | 214,463 |
| Lease prepayments | | **3,758,763** | 3,281,131 |
| Goodwill | | **93,801** | 93,847 |
| Interest in an associate | | **5,127** | 5,381 |
| Interest in a jointly controlled entity | | **21,865** | 24,069 |
| Non-current prepayments | | **401,101** | 852,209 |
| Deferred tax assets | | **24,691** | 22,654 |
| | | **19,030,685** | 17,129,226 |
| **Current assets** | | | |
| Inventories | | **1,665,230** | 1,453,415 |
| Current portion of lease prepayments | | **83,216** | 71,785 |
| Trade and other receivables | *10* | **2,027,420** | 1,466,105 |
| Income tax recoverable | | **4,215** | 20,269 |
| Pledged deposits | | **21,593** | 178,735 |
| Time deposits | | **3,191** | 90,866 |
| Cash and cash equivalents | | **2,812,267** | 5,068,812 |
| | | **6,617,132** | 8,349,987 |
| **Current liabilities** | | | |
| Bank loans | | **3,617,538** | 5,141,227 |
| Finance lease liabilities | | **588** | 562 |
| Trade and other payables | *11* | **2,632,318** | 3,014,529 |
| Income tax payable | | **19,463** | 33,500 |
| | | **6,269,907** | 8,189,818 |
| **Net current assets** | | **347,225** | 160,169 |
| **Total assets less current liabilities** | | **19,377,910** | 17,289,395 |

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | | **1,878,564** | 784,798 |
| Medium term notes | *12* | **1,603,355** | – |
| Finance lease liabilities | | **176,863** | 177,539 |
| Deferred tax liabilities | | **172,681** | 155,311 |
| | | **3,831,463** | 1,117,648 |
| **NET ASSETS** | | **15,546,447** | 16,171,747 |
| **EQUITY** | | | |
| Share capital | *13* | **182,276** | 182,276 |
| Reserves | | **15,306,908** | 15,926,506 |
| **Total equity attributable to equity holders of the Company** | | **15,489,184** | 16,108,782 |
| **Non-controlling interests** | | **57,263** | 62,965 |
| **TOTAL EQUITY** | | **15,546,447** | 16,171,747 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2012*

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Cash (used in)/generated from operating activities** | **(852,172)** | 2,668,612 |
| Finance costs paid | **(412,848)** | (249,700) |
| Income tax paid | **(24,191)** | (147,117) |
| **Net cash (used in)/from operating activities** | **(1,289,211)** | 2,271,795 |
| **Net cash used in investing activities** | **(2,263,439)** | (4,812,293) |
| **Net cash from financing activities** | **1,310,997** | 1,431,242 |
| **Net decrease in cash and cash equivalents** | **(2,241,653)** | (1,109,256) |
| **Cash and cash equivalents at 1 January** | **5,068,812** | 5,972,385 |
| **Effect of exchange rate fluctuations on cash held** | **(14,892)** | 205,683 |
| **Cash and cash equivalents at 31 December** | **2,812,267** | 5,068,812 |

**Notes:**

## 1. REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the audit committee of the Company.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 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 has issued a few amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group and the Company. Of these, Amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*, is relevant to the Group's financial statements.

The amendments to IFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the balance sheet date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under amendments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the sale 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 chief operating decision maker ("CODM"), 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.

The Group's CODM reviews the results of the two operating segments regularly. The decisions made regarding resources allocation and performance assessment are mainly based on the segment results.

(a) **Segment results**

| | Chilled and frozen meat | | Processed meat products | | Total | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| External revenues | **24,101,621** | 28,541,508 | **2,680,011** | 3,773,685 | **26,781,632** | 32,315,193 |
| Inter-segment revenue | **684,992** | 1,044,961 | **8,361** | 67,294 | **693,353** | 1,112,255 |
| Reportable segment revenue | **24,786,613** | 29,586,469 | **2,688,372** | 3,840,979 | **27,474,985** | 33,427,448 |
| Depreciation and amortisation | **(437,055)** | (332,535) | **(89,686)** | (73,069) | **(526,741)** | (405,604) |
| Government subsidies | **812,595** | 593,362 | **74,174** | 60,210 | **886,769** | 653,572 |
| Reportable segment (loss)/profit | **(283,654)** | 1,621,257 | **(85,581)** | 367,157 | **(369,235)** | 1,988,414 |
| Income tax expenses | **(10,892)** | (4,116) | **(29,945)** | (95,124) | **(40,837)** | (99,240) |

(b) **Reconciliations of reportable segment revenue and (loss)/profit**

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Total revenue from reportable segments | **27,474,985** | 33,427,448 |
| Elimination of inter-segment revenue | **(693,353)** | (1,112,255) |
| Consolidated revenue | **26,781,632** | 32,315,193 |
| **(Loss)/profit** | | |
| Reportable segment (loss)/profit | **(369,235)** | 1,988,414 |
| Elimination of inter-segment profits | **22,592** | 10,881 |
| Reportable segment (loss)/profit derived from the Group's external customers | **(346,643)** | 1,999,295 |
| Share of losses of associates | **(250)** | (299) |
| Share of loss of a jointly controlled entity | **(2,185)** | (114) |
| Net finance costs | **(144,912)** | (36,231) |
| Income tax expense | **(41,537)** | (99,532) |
| Unallocated head office and corporate expenses | **(75,580)** | (57,178) |
| Consolidated (loss)/profit for the year | **(611,107)** | 1,805,941 |

(c) **Geographical information**

The Group's revenue and profit are derived entirely from the manufacturing and sales of chilled and frozen meat and processed meats products in the People's Republic of China ("PRC"). Almost all of the Group's non-current assets are located in the PRC.

(d) **Information about major customers**

During the years ended 31 December 2012 and 2011, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

## 4. OTHER OPERATING INCOME

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Government subsidies | **886,769** | 653,572 |
| Rental income | **23,111** | 24,559 |
| Sales of scrap | **5,914** | 5,230 |
| Sundry income | **28,498** | 19,951 |
| | **944,292** | 703,312 |

## 5. (LOSS)/PROFIT BEFORE INCOME TAX

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories | **26,383,899** | 29,530,416 |
| Depreciation | **462,978** | 350,807 |
| Loss on disposal of property, plant and equipment | **4,297** | 6,849 |
| Amortisation of lease prepayments | **76,295** | 59,352 |
| Interest on borrowings | **193,907** | 154,071 |
| Investment income from available-for-sale assets | **(23,413)** | (23,870) |

## 6. INCOME TAX EXPENSE

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax expense** | | |
| Current year | **25,319** | 120,927 |
| Under-provision in respect of prior years | **813** | 10,305 |
| | **26,132** | 131,232 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **15,405** | (31,700) |
| Income tax expense in the consolidated income statement | **41,537** | 99,532 |

(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 2012 and 2011.

(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 years ended 31 December 2012 and 2011, 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 have started 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 2012 and 2011.

(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.

As at 31 December 2012, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$5,377,823,000 (31 December 2011: HK$5,692,366,000). Deferred tax liabilities of HK$113,656,000 (31 December 2011: HK$129,307,000) in respect of the undistributed profits of HK$2,273,127,000 (31 December 2011: HK$2,586,138,000) were not recognised as at 31 December 2012 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$360,645,000 (2011: HK$12,229,000) due to the unpredictability of future taxable profit streams in the relevant tax jurisdiction and entity. The tax losses will be expired in 5 years.

(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.

## 7. DIVIDENDS

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend declared and paid of HK$Nil (2011: HK$0.22) per share | **–** | 401,403 |

## 8. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the year ended 31 December 2012 is based on the loss attributable to equity holders of the Company for the year of HK$605,455,000 (2011: a profit of HK$1,799,088,000) and the weighted average number of 1,822,756,000 (2011: 1,818,267,000) shares in issue during the year.

### (b) Diluted (loss)/earnings per share

Diluted loss per share equals to basic loss per share for the year ended 31 December 2012 because the exercise of share options would result in a decrease in loss per share.

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profits attributable to equity holders of the Company for the year of HK$1,799,088,000 and the weighted average number of 1,826,693,000 shares after adjusting the effect of deemed issue of shares under the Company's share option scheme.

## 9. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2012 and 2011.

## 10. TRADE AND OTHER RECEIVABLES

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Trade receivables | **442,992** | 545,519 |
| Bills receivable | **93,380** | 12,018 |
| Value-added tax recoverable | **1,309,869** | 764,675 |
| Deposits and prepayments | **105,186** | 89,320 |
| Others | **75,993** | 54,573 |
| | **2,027,420** | 1,466,105 |

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 based on invoice date is analysed as follows:

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Within 30 days | **283,162** | 381,261 |
| 31 days to 90 days | **133,442** | 123,795 |
| 91 days to 180 days | **12,793** | 26,584 |
| Over 180 days | **13,595** | 13,879 |
| | **442,992** | 545,519 |

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Special approval from senior management is required for extension of credit terms.

## 11. TRADE AND OTHER PAYABLES

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Trade payables | **840,863** | 902,094 |
| Bills payable | **–** | 6,228 |
| Receipts in advance | **253,326** | 263,242 |
| Deposits from customers | **116,429** | 94,470 |
| Salary and welfare payables | **158,774** | 154,039 |
| Value-added tax payable | **2,253** | 1,029 |
| Payables for acquisitions of property, plant and equipment | **549,118** | 731,836 |
| Derivative financial instruments | **–** | 1,235 |
| Other payables and accruals | **711,555** | 860,356 |
| | **2,632,318** | 3,014,529 |

An ageing analysis of trade payables of the Group is analysed as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within 30 days | **651,909** | 774,476 |
| 31 days to 90 days | **91,053** | 91,683 |
| 91 days to 180 days | **36,466** | 21,487 |
| Over 180 days | **61,435** | 14,448 |
| | **840,863** | 902,094 |

## 12. MEDIUM TERM NOTES

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Medium term notes | **1,603,355** | – |

On 17 October 2012, a subsidiary of the Group issued the first tranche of unsecured 3-year medium term notes in the PRC interbank debenture market with an interest rate of 5.49% per annum.

## 13. SHARE CAPITAL

In September 2011, the Company repurchased 1,800,000 of its own ordinary shares on The Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled in October 2011 and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$14,067,000 was charged to share premium.

During the year ended 31 December 2011, options were exercised to subscribe for 13,399,000 new ordinary shares of the Company at a consideration of HK$99,956,000, of which HK$1,340,000 was credited to share capital and the balance of HK$98,616,000 was credited to the share premium account. The fair value of the options exercised of HK$19,655,000 had been transferred from retained earnings to the share premium.

## ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Tuesday, 21 May 2013. The notice of Annual General Meeting will be published and despatched to the shareholders of the Company in due course.

## FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2012.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 16 May 2013 to Tuesday, 21 May 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Annual General Meeting, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 15 May 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

In 2012, the Chinese economy faced severe challenge. According to the data released by the National Bureau of Statistics of China, China's gross domestic product reached Renminbi ("RMB") 51,932.2 billion last year, representing an increase of 7.8% over previous year calculated at comparable prices, yet the lowest growth in 7 years. Under a comparatively sophisticated overall economy in China, substantial hog price fluctuation as well as slower-than-expected recovery in consumer demand all resulted in a challenging operating environment for hog slaughtering and meat processing industry in China. Facing all these challenges, the Group shall continue its strategies of proactively optimising its market and sales network, operating business with persistent commitment and implementing flexible marketing strategies in order to consolidate its business foundation established over years and provide momentum for the future development of the Group.

During the Review Year, as affected by the macro-economic environment, recovery in consumer demand was slower than expected. Hog price fluctuation continued and operating costs such as labour costs and utilities costs persistently increased. All these factors resulted in tremendous pressure on the hog slaughtering and meat processing industry in China. To stabilise hog price and support the hog market for steady development, the Central Government of the PRC initiated three rounds of large-scale measures to keep frozen pork reserve during the Review Year.

During the Review Year, the Central Government of the PRC promulgated or issued more than ten new laws, regulations and notices to regulate the hog industry and promote food safety. Nine departments including the Ministry of Commerce and the Ministry of Industry and Information Technology joined forces to check and inspect all qualified hog slaughters across the nation. As at the end of 2012, the number of hog slaughtering plants (or establishments) and small hog-slaughterhouses in China significantly decreased by 22.5% and 27.7% year-on-year, respectively. The total number of slaughtering enterprises in China decreased by 26.2% compared to 2011. The Company believes that, along with the industry restructuring, consolidation of the slaughtering industry in China will further guarantee sustainable development of the industry and benefit leading enterprises in the industry to sustain long-term development by leveraging competitive advantages in brand building, production capacity and market allocation.

Under the leadership of our management team and with the persistent efforts in business operation and flexible brand building strategies, the Group was awarded the Most Influential Consumption Brand at Consumer Markets 20th Anniversary Huacai Awards Presentation Ceremony. In addition, Yurun Food was the only meat and food processing enterprise in China featured by CCTV in its special programme, “2012, Our Brand”. These showed that our brand products are well received and acknowledged by the community in China.

The Board believes that Yurun Food’s business foundation and diversified national sales network established over years will continue to underpin the long-term development and promotion of steady and ongoing development of the Group and enable it to recover business and profit growth in future.

**Business Review**

Under the challenging operating environment in 2012, chilled pork products and low temperature meat products (“LTMP”), which are of higher added value, continued to be the key revenue drivers of the Group.

***Product Quality and R&D***

It has always been Yurun Food’s aim to deliver products of supreme quality. In 2012, as a recognition of its stringent quality control, Yurun Food received The 2nd Award for Outstanding Contribution in Food Safety and Public Health recognising its efforts in food safety and public health. Meanwhile, the Group continues to focus on product innovation and strive to maintain competitive advantages and retain its market share.

### *Sales and Distribution*

Chilled pork and LTMP, our products of higher added value, continued to play an important role in the business of the Group during the Review Year. In 2012, sales of chilled pork reached HK$21.007 billion (2011: HK$24.558 billion), representing a decrease of 14.5% as compared to that of last year, which accounted for 77% of total turnover before inter-segment eliminations (2011: 74%) and 85% of total turnover of the upstream business segment (2011: 83%). Sales of LTMP amounted to HK$2.395 billion (2011: HK$3.379 billion), representing a decrease of 29.1% compared to the previous year, which accounted for 9% of total turnover before inter-segment eliminations (2011: 10%) and 89% of total turnover of the downstream business segment (2011: 88%).

### *Production Facilities and Production Capacity*

To fully capitalise business opportunities arising from industry consolidation, the Group made forward-looking deployment in regions with ample hog production capacity and satisfied market demand for quality meat products. During the Review Year, under the principle of strict control over investment costs, the Group prudently adjusted its pace of expansion in accordance with market change and continued to implement the development plan in an orderly manner.

With respect to its upstream slaughtering segment, after the new plants in provinces including Anhui, Henan, Jiangxi, Gansu and Hainan commenced operation during the Review Year, the upstream slaughtering capacity of the Group reached 56.65 million heads per year at the end of 2012, representing an increase of approximately 10.60 million heads as compared to the end of 2011.

As at the end of 2012, the annual downstream meat processing capacity of the Group reached 307,000 tons, increased by approximately 3,000 tons compared to the end of 2011.

## Financial Review

During the Review Year, the Group recorded a turnover of HK$26.782 billion in 2012, representing a decrease of 17.1% as compared to HK$32.315 billion last year. In 2012, the Group recorded a loss attributable to equity holders of the Company of HK$605 million (2011: a profit of HK$1.799 billion). Diluted loss per share was HK$0.332 (2011: HK$0.985 diluted earnings per share).

### *Turnover*

*Chilled and Frozen Pork*

During the Review Year, the slaughtering volume of the Group decreased by approximately 10% as compared to 2011.

In 2012, the total sales generated from the upstream business (before inter-segment eliminations) decreased by 16.2% to HK$24.787 billion (2011: HK$29.586 billion) as compared to last year. Sales of chilled pork decreased by 14.5% to HK$21.007 billion (2011: HK$24.558 billion), representing approximately 85% (2011: 83%) of the total turnover of the upstream business. Sales of frozen pork decreased by 24.8% to HK$3.780 billion (2011: HK$5.028 billion) compared to 2011, accounting for approximately 15% (2011: 17%) of the total turnover of the upstream business.

*Processed Meat Products*

During the Review Year, sales of processed meat products (before inter-segment eliminations) was HK$2.688 billion (2011: HK$3.841 billion), representing a decrease of 30.0% from last year.

Turnover of LTMP during the Review Year was HK$2.395 billion, representing a decrease of 29.1% as compared to HK$3.379 billion in 2011. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 89% (2011: 88%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$293 million (2011: HK$462 million), accounting for approximately 11% (2011: 12%) of the total turnover of the processed meat segment.

**Gross Profit and Gross Profit Margin**

Gross profit of the Group decreased by 85.7% from HK$2.785 billion in 2011 to HK$398 million in 2012. Gross profit margin decreased by 7.1 percentage points from 8.6% in 2011 to 1.5%. The decrease in gross profit margin was mainly due to the combined effect of slower-than-expected recovery of consumer demand, persistent hog price fluctuation and continuous increase in labour and other operating costs leading to enormous operating pressure to the Group.

With respect to the upstream business, gross profit margin of chilled and frozen pork was 1.7% and -11.2% respectively (2011: 6.6% and 5.9% respectively). The overall gross profit margin of the upstream segment was -0.3%, representing a decrease of 6.8 percentage points as compared to 6.5% of last year.

With respect to downstream products, gross profit margin of LTMP was 16.8%, representing a decrease of 5.8 percentage points as compared to 22.6% of last year. Gross profit margin of HTMP was 13.1%, representing a decrease of 5.5 percentage points as compared to that of last year. Overall gross profit margin of the downstream segment was 16.4%, representing a decrease of 5.7 percentage points as compared to 22.1% of last year.

**Other Operating Income**

Other operating income mainly represented government subsidies and cold storage rental income. During the Review Year, other operating income of the Group was HK$944 million, representing an increase of 34.3% as compared to HK$703 million in 2011.

**Operating Expenses**

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.764 billion, representing an increase of 14.1% as compared to HK$1.546 billion in 2011. Increase in operating expenses was mainly due to increase in staff costs, depreciation and other operating costs. Operating expenses represented 6.6% of the Group's turnover, an increase of 1.8 percentage point as compared to 4.8% of last year.

**Operating Loss**

In 2012, operating loss of the Group was HK$422 million (2011: operating profit of HK$1.942 billion).

**Net Finance Costs**

Net finance costs of the Group was HK$145 million in 2012 while it was HK$36 million in 2011. Net finance costs increased significantly mainly due to depreciation of RMB against Hong Kong dollars compared to 2011 which resulted in foreign exchange loss of approximately HK$12 million, a contrast to the foreign exchange gains of approximately HK$75 million from appreciation of RMB against Hong Kong dollars in 2011. In addition, borrowing interests rose due to increased bank loans and other borrowings during the Review Year.

**Income Tax**

The total income tax for the Review Year was HK$42 million, representing a decrease of 58.3% as compared to HK$100 million of last year. During the Review Year, although certain subsidiaries incurred loss, the loss could not be used to set off the profit generated by other subsidiaries. Those subsidiaries with taxable profit were required to pay corporate income tax, and thus the Group still incurred income tax expenses against its consolidated net loss.

**Loss attributable to equity holders of the Company**

Taking into account of all the above factors, loss attributable to equity holders of the Company was approximately HK$605 million (2011: profit attributable to equity holders of the Company HK$1.799 billion).

**Financial Resources**

During the Review Year, the first tranche of domestic medium term notes ("MTN") with an aggregate principal amount of RMB1.3 billion were issued in the PRC by Nanjing Yurun Food Co., Ltd., a wholly-owned subsidiary of the Company. The first tranche of the MTN is unsecured with a term of 3 years and bears a fixed interest rate of 5.49% per annum. This interest rate is more favourable compared with most of the bank loans of the Group. The Group issued the MTN at a lower interest rate to optimise the debt structure. The net proceeds from the MTN has been used for repayment of short-term bank loans with higher interest rate and as general working capital of the Group. Cash balance of the Group together with the pledged deposits amounted to HK$2.837 billion as at 31 December 2012, representing a decrease of HK$2.501 billion as compared to HK$5.338 billion as at 31 December 2011.

As at 31 December 2012, the Group had an outstanding loan (including the MTN) amounted to HK$7.099 billion, representing an increase of HK$1.173 billion from HK$5.926 billion as at the end of 2011. HK$3.618 billion (2011: HK$5.141 billion) of our borrowings was classified as bank loan repayable within one year and all (2011: 89.7%) of our borrowings was denominated in RMB. The fixed rate debt ratio of the Group increased to 53.9% (2011: 40.3%) as at 31 December 2012.

Under the principle of strict control over investment costs, the capital expenditure of the Group significantly decreased by 51.2% to HK$2.420 billion during the Review Year as compared to HK$5.000 billion of last year.

**Assets and Liabilities**

As at 31 December 2012, the total assets and total liabilities of the Group were HK$25.648 billion (2011: HK$25.479 billion) and HK$10.101 billion (2011: HK$9.307 billion) respectively, representing a respective increase of HK$169 million and HK$794 million as compared to 31 December 2011.

As at 31 December 2012, property, plant and equipment of the Group amounted to HK$14.518 billion (2011: HK$12.635 billion), representing an increase of HK$1.883 billion as compared to that as at 31 December 2011. Property, plant and equipment comprised construction in progress amounted to HK$4.359 billion (2011: HK$4.239 billion), of which no depreciation was provided for during the Review Year.

Lease prepayments of the Group as at 31 December 2012 amounted to HK$3.842 billion (2011: HK$3.353 billion). This represented the acquisition cost of land use rights, which was amortized on a straight-line basis over the respective periods of the land use rights.

Non-current prepayments of the Group represented prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2012, the prepayments amounted to HK$401 million (2011: HK$852 million).

As at 31 December 2012, the equity attributable to equity holders of the Company was HK$15.489 billion, representing a decrease of HK$620 million as compared to HK$16.109 billion as at 31 December 2011.

As at 31 December 2012, the gearing ratio (total debt represented by the sum of bank loans, the MTN and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 32.0%, representing an increase of 4.5% as compared to 27.5% as at 31 December 2011. As at 31 December 2012, the gearing ratio of the Group excluding cash, time deposits and pledged deposits was 19.5%, representing an increase of 16.1% as compared to 3.4% as at 31 December 2011.

**Charges on Assets**

As at 31 December 2012, certain properties and construction in progress of the Group with a carrying amount of HK$418 million, and lease prepayments of the Group with a carrying amount of HK$490 million (2011: HK$128 million and HK$292 million respectively) were pledged to secure certain bank loans and bank loan facilities with a total amount of HK$2.162 billion (2011: HK$730 million).

Secured bank loans of the Group as at 31 December 2012 totalling HK$5.67 million (2011: HK$116 million) were secured by pledged deposits denominated in RMB equivalent to HK$6.04 million (2011: HK$131 million).

As at 31 December 2012, the Group had no balance of bills payable and derivative financial instruments. As at 31 December 2011, the bills payable and derivative financial instruments were secured by pledged deposits denominated in RMB amounting to HK$6.23 million and HK$41.71 million respectively.

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

Having considered the operation and cashflow of the Group, the Board takes a more prudent approach on capital expenditure plan for 2013. The preliminary capital expenditure plan for 2013 approved by the Board amounted to approximately RMB1.00 billion. As at the date of this announcement, the budget and the expenditure plan are yet to be finalized and the Group has not identified any particular target or opportunity at this stage. Save as disclosed herein, the Group did not hold any other substantial investment nor 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.

**Contingent Liabilities**

There were no significant contingent liabilities for the Group as at 31 December 2012.

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

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euro dollars or Hong Kong dollars, the business of the Group are mainly settled in RMB. The functional currency of operating subsidiaries of the Group in the PRC is RMB, which is not freely convertible into foreign currencies. The Group entered into an Euro foreign exchange forward contract during the Review Year. The Group will monitor its exposure to exchange rate by considering factors including but not limited to, exchange rate movement of the relevant foreign currencies as well as cash flow requirements of the Group to ensure that its foreign exchange exposure is kept at an acceptable level.

## Human Resources

As at 31 December 2012, the Group had approximately 26,000 (2011: 27,000) employees in the PRC and Hong Kong. During the Review Year, the total staff cost was HK$969 million, accounting for 3.6% of the turnover of the Group (2011: HK$852 million, accounting for 2.6% of the turnover of the Group).

The Group offered competitive remuneration and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance-based bonus 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 other employees so as to improve their skills and knowledge.

## CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has fully complied with the code provisions of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and of the new Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period from 1 April 2012 to 31 December 2012.

## 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 (the "Model Code") as the Company's code of conduct and rules governing dealings by all directors of the Company in the securities of the Company. The Company, having made specific enquiry of all directors of the Company, confirms that the directors have complied with the required standards set out in the Model Code throughout the Review Year.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Review Year.

## AUDIT COMMITTEE

The audit committee of the Company 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 Review Year.

## PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and of the Company (www.yurun.com.hk). The Company's annual report for the year ended 31 December 2012 containing all the financial and other related information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
**Yu Zhangli**
*Chairman*

Hong Kong, 22 March 2013

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

* *For identification purposes only*