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 2013

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 2013 (the "Review Year") together with the comparative figures of the corresponding period in 2012 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	3	**21,440,039**	26,781,632
Cost of sales		**(20,674,384)**	(26,383,899)
Gross profit		**765,655**	397,733
Other net income	4	**1,203,571**	944,292
Distribution expenses		**(704,798)**	(743,508)
Administrative and other operating expenses		**(1,002,160)**	(1,020,740)
Results from operating activities		**262,268**	(422,223)
Finance income		**77,046**	64,564
Finance costs		**(231,313)**	(209,476)
Net finance costs		**(154,267)**	(144,912)
Share of loss of an associate (net of income tax)		**(290)**	(250)
Share of loss of a joint venture (net of income tax)		**(4,218)**	(2,185)
Profit/(loss) before income tax	5	**103,493**	(569,570)
Income tax expense	6	**(64,059)**	(41,537)
Profit/(loss) for the year		**39,434**	(611,107)
Attributable to:			
Equity holders of the Company		**43,592**	(605,455)
Non-controlling interests		**(4,158)**	(5,652)
Profit/(loss) for the year		**39,434**	(611,107)
Earnings/(loss) per share			
Basic	8(a)	**HK$0.024**	HK$(0.332)
Diluted	8(b)	**HK$0.024**	HK$(0.332)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Profit/(loss) for the year		**39,434**	(611,107)
Other comprehensive income for the year (after reclassification adjustments)	*9*		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**433,263**	(14,193)
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries		**(14,299)**	–
		418,964	(14,193)
Total comprehensive income for the year		**458,398**	(625,300)
Attributable to:			
Equity holders of the Company		**460,827**	(619,598)
Non-controlling interests		**(2,429)**	(5,702)
Total comprehensive income for the year		**458,398**	(625,300)

CONSOLIDATED BALANCE SHEET
At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment		**15,926,126**	14,518,311
Investment properties		**205,944**	207,026
Lease prepayments		**3,881,766**	3,758,763
Goodwill		**96,736**	93,801
Interest in an associate		**–**	5,127
Interest in a joint venture		**18,268**	21,865
Non-current prepayments		**424,651**	401,101
Deferred tax assets		**28,064**	24,691
		20,581,555	19,030,685
Current assets			
Inventories		**1,170,362**	1,665,230
Current portion of lease prepayments		**87,579**	83,216
Trade and other receivables	*10*	**2,608,302**	2,027,420
Income tax recoverable		**4,365**	4,215
Pledged deposits		**11,483**	21,593
Time deposits		**33,629**	3,191
Cash and cash equivalents		**2,444,694**	2,812,267
		6,360,414	6,617,132
Current liabilities			
Bank loans		**3,415,390**	3,617,538
Finance lease liabilities		**634**	588
Trade and other payables	*11*	**2,244,741**	2,632,318
Income tax payable		**11,091**	19,463
		5,671,856	6,269,907
Net current assets		**688,558**	347,225
Total assets less current liabilities		**21,270,113**	19,377,910

	Note	**2013**	2012
		HK$'000	*HK$'000*
Non-current liabilities			
Bank loans		**1,977,820**	1,878,564
Medium term notes	*12*	**2,921,312**	1,603,355
Finance lease liabilities		**181,763**	176,863
Deferred tax liabilities		**177,904**	172,681
		5,258,799	3,831,463
NET ASSETS		**16,011,314**	15,546,447
EQUITY			
Share capital		**182,276**	182,276
Reserves		**15,767,735**	15,306,908
Total equity attributable to equity holders of the Company		**15,950,011**	15,489,184
Non-controlling interests		**61,303**	57,263
TOTAL EQUITY		**16,011,314**	15,546,447

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2013

	2013	2012
	HK$'000	*HK$'000*
Cash generated from/(used in) operating activities	**173,582**	(852,172)
Finance costs paid	**(393,716)**	(412,848)
Income tax paid	**(75,801)**	(24,191)
Net cash used in operating activities	**(295,935)**	(1,289,211)
Net cash used in investing activities	**(1,121,054)**	(2,263,439)
Net cash generated from financing activities	**977,218**	1,310,997
Net decrease in cash and cash equivalents	**(439,771)**	(2,241,653)
Cash and cash equivalents at 1 January	**2,812,267**	5,068,812
Effect of exchange rate fluctuations on cash held	**72,198**	(14,892)
Cash and cash equivalents at 31 December	**2,444,694**	2,812,267

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 2013 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 number of new International Financial Reporting Standards ("IFRSs") and amendments to IFRSs 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:

– Amendments to International Accounting Standard ("IAS") 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

– IFRS 10, *Consolidated financial statements*

– IFRS 11, *Joint arrangements*

– IFRS 12, *Disclosure of interests in other entities*

– IAS 28 (2011), *Investment in associates and joint ventures*

– IFRS 13, *Fair value measurement*

– *Annual Improvements to IFRSs 2009-2011 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other new or amended IFRSs are discussed below:

Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and Standing Interpretation Committee interpretations ("SIC") – 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 11, Joint arrangements

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards.

IAS 28 (2011), Investment in associates and joint ventures

IAS 28 (2011) was issued as part of the above package of standards. It is substantially the same as IAS 28 (2008) except for the following.

IAS 28 (2011) includes expanded guidance on how to apply IFRS 5, *Non-current assets held for sale and discontinued operations*, to an investment or a portion of an investment in an associate or a joint venture meets the criteria to be classified as held for sale; and IAS 28 (2011) modifies the accounting requirement when there are changes in interest which result in a change in the nature of the investment but equity method continues to be applied (i.e. an associate becomes a joint venture, or vice versa). In such cases, under IAS 28 (2011), there is no re-measurement of the retained interest to fair value.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments.

Annual Improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

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 resource allocation and performance assessment are mainly based on the segment results.

(a) Segment results

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

	Chilled and frozen meat		Processed meat products		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenues	**18,507,916**	24,101,621	**2,932,123**	2,680,011	**21,440,039**	26,781,632
Inter-segment revenue	**656,449**	684,992	**17,019**	8,361	**673,468**	693,353
Reportable segment revenue	**19,164,365**	24,786,613	**2,949,142**	2,688,372	**22,113,507**	27,474,985
Depreciation and amortisation	**(504,683)**	(437,055)	**(97,693)**	(89,686)	**(602,376)**	(526,741)
Net impairment losses on trade receivables	**(1,394)**	(2,794)	**(26,250)**	(503)	**(27,644)**	(3,297)
Government subsidies	**630,747**	812,595	**72,508**	74,174	**703,255**	886,769
Reportable segment (loss)/profit	**(166,532)**	(283,654)	**56,658**	(85,581)	**(109,874)**	(369,235)
Income tax expenses	**(4,460)**	(10,892)	**(59,115)**	(29,945)	**(63,575)**	(40,837)

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

	2013	2012
	HK$'000	*HK$'000*
Revenue		
Total revenue from reportable segments	**22,113,507**	27,474,985
Elimination of inter-segment revenue	**(673,468)**	(693,353)
Consolidated revenue	**21,440,039**	26,781,632
Profit/(loss)		
Reportable segment loss	**(109,874)**	(369,235)
Elimination of inter-segment profits	**(7,329)**	22,592
Reportable segment loss derived from the Group's external customers	**(117,203)**	(346,643)
Share of loss of an associate	**(290)**	(250)
Share of loss of a joint venture	**(4,218)**	(2,185)
Net finance costs	**(154,267)**	(144,912)
Income tax expense	**(64,059)**	(41,537)
Unallocated head office and corporate expenses	**(64,754)**	(75,580)
Gain on disposal of subsidiaries	**444,225**	–
Consolidated profit/(loss) for the year	**39,434**	(611,107)

(c) Geographical information

The Group's revenue and profit/(loss) are derived entirely from the manufacturing and sales of chilled and frozen meat and processed meat 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 2013 and 2012, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

4. OTHER NET INCOME

	2013	2012
	HK$'000	*HK$'000*
Government subsidies	**710,438**	886,769
Gain on disposal of subsidiaries	**444,225**	–
Rental income	**19,377**	23,111
Sales of scrap	**2,638**	5,914
Sundry income	**26,893**	28,498
	1,203,571	944,292

In 2013, the Group disposed of its entire equity interest in its two wholly owned subsidiaries in chilled and frozen meat segment to independent third parties, at a total cash consideration of HK$606,787,000 and gain on disposal of subsidiaries amounting to HK$444,225,000 were recognised in profit or loss during the year (2012: HK$Nil) respectively.

5. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2013	2012
	HK$'000	*HK$'000*
Cost of inventories	**20,674,384**	26,383,899
Depreciation	**533,192**	462,978
Loss on disposal of property, plant and equipment	**1,732**	4,297
Amortisation of lease prepayments	**85,099**	76,295
Interest on borrowings, net of capitalised interest expenses	**229,210**	193,907
Interest income from bank deposits	**(23,114)**	(39,916)
Investment income from available-for-sale financial assets	**(23,379)**	(23,413)

6. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2013	2012
	HK$'000	*HK$'000*
Current tax expense		
Current year	**66,645**	25,319
(Over)/under-provision in respect of prior years	**(121)**	813
	66,524	26,132
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(2,465)**	15,405
Income tax expense in the consolidated income statement	**64,059**	41,537

(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 2013 and 2012.

(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 2013 and 2012, 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. The tax concession period was expired during the year ended 31 December 2012.

   (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 2013 and 2012.

(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.

7. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2013 (2012: HK$Nil).

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the year ended 31 December 2013 is based on the profit attributable to equity holders of the Company for the year of HK$43,592,000 (2012: a loss of HK$605,455,000) and the weighted average number of 1,822,756,000 (2012: 1,822,756,000) shares in issue during the year.

(b) Diluted earnings/(loss) per share

Diluted earnings per share equals to basic earnings per share for the year ended 31 December 2013 because the potential ordinary shares outstanding were anti-dilutive.

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.

9. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2013 and 2012.

10. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**723,600**	442,992
Bills receivable	**26,904**	93,380
Value-added tax recoverable	**1,606,379**	1,309,869
Deposits and prepayments	**155,323**	105,186
Others	**96,096**	75,993
	2,608,302	2,027,420

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:

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**433,858**	283,162
31 days to 90 days	**137,238**	133,442
91 days to 180 days	**146,152**	12,793
Over 180 days	**6,352**	13,595
	723,600	442,992

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

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**931,193**	840,863
Receipts in advance	**249,161**	253,326
Deposits from customers	**107,432**	116,429
Salary and welfare payables	**109,221**	158,774
Value-added tax payable	**4,145**	2,253
Payables for acquisitions of property, plant and equipment	**412,118**	549,118
Other payables and accruals	**431,471**	711,555
	2,244,741	2,632,318

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

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**707,780**	651,909
31 days to 90 days	**129,745**	91,053
91 days to 180 days	**30,593**	36,466
Over 180 days	**63,075**	61,435
	931,193	840,863

12. MEDIUM TERM NOTES

	2013	2012
	HK$'000	*HK$'000*
Medium term notes	**2,921,312**	1,603,355

On 10 May 2013, a subsidiary of the Group issued the second tranche of unsecured 3-year medium term notes of Renminbi ("RMB") 1,000,000,000 in the PRC interbank debenture market with an interest rate of 5.27% per annum. The first tranche of unsecured 3-year medium term notes of RMB1,300,000,000 with an interest rate of 5.49% per annum was issued on 17 October 2012.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Tuesday, 20 May 2014. The notice of the 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 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 16 May 2014 to Tuesday, 20 May 2014, 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 (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:30 p.m. on Thursday, 15 May 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

During the year ended 31 December 2013 (the "Review Year"), China's economy was stable. According to the data released by the National Bureau of Statistics of China, China's gross domestic product reached Renminbi ("RMB") 56,884.5 billion during the Review Year, representing an increase of 7.7% over previous year based on comparable prices. Economic growth rate was basically equal to that of last year. During the Review Year, against the backdrop of persistent increase in production and labour costs, persistent fluctuation of hog price and a slight drop in consumption in the catering industry as compared with previous years, the Chinese hog slaughtering and meat processing industry was under tremendous pressure.

During the Review Year, pork price fluctuated significantly, while the average price for the year basically levelled to that of 2012. Specifically, pork price reached the highest level of the year during the traditional peak season from January to February. After the Chinese New Year, pork price declined steadily, and dropped to its lowest level in May, which frustrated the motivation of hog farmers and resulted in a significant decrease in the restock of hogs' grower sheds in the same period. During the Review Year, due to the implementation of the reserve plan for frozen pork by the Central Government, pork price rallied from June. During summer, hog production declined in major production regions under scorching weather. Decrease in hog stock earlier caused market supply to become tight and slightly drove pork price up. Pork price fluctuated slightly in the period from October to December but remained stable as a whole.

During the Review Year, accelerated urbanisation in the PRC continued to fuel catering consumption. Despite the seasonal fluctuations, the overall pork consumption maintained sound and steady growth. Meanwhile, the Chinese Government continuously strengthened food quality and safety control and the industry continued to eliminate those obsolete capacities. In February 2013, the General Office of the Ministry of Agriculture of the PRC issued the Notice of the General Office of the Ministry of Agriculture on Further Strengthening Supervision over Hygiene in Livestock Slaughtering (《農業部辦公廳關於進一步强化屠宰環節動物衛生監督工作的通知》) to further strengthen the supervision over hygiene in livestock slaughtering so as to ensure quality and safety of livestock products. In April 2013, the General Office of the State Council issued the Notice of the General Office of the State Council on Printing and Distributing the 2013 Key Work Arrangement on Food Safety (《國務院辦公廳關於印發2013年食品安全重點工作安排的通知》) and the Guidelines of the State Council on Local Reform and Improvement of the System of Supervision and Management of Food and Drugs (《國務院關於地方改革完善食品藥品監督管理體制的指導意見》), striving to improve the overall standard of the food industry, create a fair market with credibility and integrity under the rules of law and comprehensively enhance food safety. In mid-December 2013, the functions of supervising and regulating the hog slaughtering were transferred to the Ministry of Agriculture from the Ministry of Commerce with clearer segregation of duties and improved regulatory system. The Board believes that the industry consolidation and enhancement of food production standards will continue to facilitate the leading enterprises in the industry to capitalize their advantages in brand, production capacity and nationwide network and will also promote proactive and steady development of the industry.

Business Review

In 2013, due to the slackened domestic economic growth, weak and sluggish end-user consumption of meat products, as well as intensifying market competition, rapid expansion of business and continued increase in production costs of the Group in last few years, the Group encountered severe challenges in business development. Against the difficult business environment, Yurun Food applied various proactive and prudent measures to strengthen the Group's brand building, improve consumer communication and strictly prevent food safety risks, and made substantial efforts to develop sales through channels such as chain restaurants and branded shops, develop new products and adhere to product diversification and prudent investment strategies, so as to strike a balance between industry consolidation and the sound and steady development of the Group.

Product Quality and R&D

It has always been Yurun Food's aim to produce products of high quality to satisfy increasing market demand for quality meat products. During the Review Year, under the leadership of the Group's management and adhering to its operation philosophy of "you trust because we care" and stringent quality control. Yurun Food was awarded the honour of "Food Manufacturing Enterprise of the Year" in the 3rd Awards for Outstanding Contribution in Food Safety and Public Health and was the only meat processing enterprise being awarded with this honour. In addition to the "Yurun" brand, another famous brand of the Group, "Harbin Popular Meat Packing", was being recognised as "Chinese Well Known Mark" by the State Administration for Industry & Commerce recently, representing good reputation and social recognition of its established brand of quality meat products. The Group will continue to focus on research and development of products which are well received by consumers, so as to maintain its competitive advantages and consolidate its market share in the industry.

Sales and Distribution

Chilled pork and low temperature meat products ("LTMP"), which are the Group's products with higher added value, continued to play an important role in the Group's overall business development during the Review Year. In 2013, sales of chilled pork of the Group was HK$16.528 billion (2012: HK$21.007 billion), representing a decrease of 21.3% as compared to that of last year, accounting for approximately 75% of the total turnover of the Group prior to inter-segment eliminations (2012: 76%) and approximately 86% of the turnover of the upstream slaughtering segment (2012: 85%). Sales of LTMP was HK$2.633 billion (2012: HK$2.395 billion), representing an increase of 9.9% over the same period last year, accounting for approximately 12% of the total turnover of the Group prior to inter-segment eliminations (2012: 9%) and approximately 89% of the turnover of the downstream processed meat segment (2012: 89%).

Production Facilities and Production Capacity

To fully capitalize business opportunities arising from industry consolidation, make forward-looking deployment in regions with ample hog production capacity and satisfy market demand for quality meat products, and adhering to the principle of strict control over investment costs, the Group prudently adjusted its expansion pace in line with market changes and at the same time pursued its development plan steadily and progressively.

In respect of its upstream slaughtering segment, against the backdrop of adjustment to expansion pace by the management, only one new plant commenced production in 2013. Deducting the capacity of the subsidiaries sold and eliminating the obsolete capacities during the year, the Group's annual upstream slaughtering capacity was 55.45 million heads as at the end of 2013, decreased by 1.20 million heads as compared with the annual capacity of 56.65 million heads as at the end of 2012.

For the year ended 2013, the Group's annual production capacity of downstream processed meat segment was approximately 312,000 tons, representing an increase of approximately 5,000 tons compared to that as at the end of 2012.

Financial Review

During the Review Year, the Group recorded a turnover of HK$21.440 billion, representing a decrease of 19.9% as compared to HK$26.782 billion last year. For the year ended 2013, the Group recorded a profit attributable to equity holders of the Company of approximately HK$44 million (2012: a loss of HK$605 million), representing an increase of over 100% over that of last year. Diluted earnings per share was HK$0.024 (2012: HK$0.332 diluted loss per share).

Turnover

Chilled and Frozen Pork

During the Review Year, total sales from upstream business (before inter-segment eliminations) decreased by 22.7% to HK$19.164 billion (2012: HK$24.787 billion) as compared with last year mainly due to the abandoning of certain sales with low values to the Group during the process of distribution channel and product structure re-engineering. As such slaughtering volume of the Group decreased by approximately 29% over that of last year. Sales of chilled pork decreased by 21.3% to HK$16.528 billion (2012: HK$21.007 billion), accounting for approximately 86% (2012: 85%) of the total turnover of the upstream business. Sales of frozen pork decreased by 30.3% to HK$2.636 billion (2012: HK$3.780 billion), accounting for approximately 14% of the total turnover of the upstream business (2012: 15%).

Processed Meat Products

During the Review Year, sales of processed meat products (before inter-segment eliminations) of the Group was HK$2.949 billion (2012: HK$2.688 billion), representing a significant increase of 9.7% as compared with 2012.

Specifically, turnover of LTMP during the Review Year was HK$2.633 billion, representing an increase of 9.9% as compared with HK$2.395 billion in 2012. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 89% (2012: 89%) of the turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") increased by 7.9% to HK$316 million (2012: HK$293 million), accounting for approximately 11% (2012: 11%) of the revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased significantly by 92.5% from HK$398 million in 2012 to HK$766 million in 2013. Gross profit margin increased by 2.1 percentage points from 1.5% in 2012 to 3.6% in 2013. In 2013, the business of the Group recovered gradually, our bargaining power increased and at the same time decreased the costs of production which led to the increase in gross profit margin.

With respect to the upstream business, gross profit margin of chilled and frozen pork was 2.9% and -9.9% respectively (2012: 1.7% and -11.2% respectively). The overall gross profit margin of the upstream segment was 1.1%, representing an increase of 1.4 percentage points as compared with -0.3% last year.

With respect to the downstream products, gross profit margin of LTMP was 19.0%, representing an increase of 2.2 percentage points as compared with 16.8% last year. Gross profit margin of HTMP was 15.4%, representing an increase of 2.3 percentage points from 13.1% last year. Overall gross profit margin of the downstream segment was 18.7%, representing an increase of 2.3 percentage points as compared with 16.4% last year.

Other Net Income

Other net income mainly included government subsidies, gain on disposal of subsidiaries and cold storage rental income. During the Review Year, other net income of the Group was HK$1.204 billion, representing an increase of HK$260 million as compared with HK$944 million in last year. The increase in other net income was mainly due to gain on disposal of two subsidiaries of slaughtering business of HK$444 million during the Review Year and no such income was recorded in 2012.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.707 billion, representing a decrease of 3.25% as compared to HK$1.764 billion in 2012. Decrease in operating expenses was mainly due to strict control on expenses which led to a significant decrease in advertising and promotion expenses. Operating expenses represented 8.0% of the Group's turnover, an increase of 1.4 percentage points as compared with 6.6% last year, mainly due to decrease in revenue of the Group that led to the increase of the ratio.

Operating Profit

In 2013, operating profit of the Group was HK$262 million, significantly increased by HK$684 million compared to the operating loss of HK$422 million in 2012.

Finance Costs

Net finance costs of the Group was HK$154 million in 2013, slightly increased by approximately HK$9 million from HK$145 million in 2012. Net finance costs increased compared with that of last year as interest expenses on borrowing rose due to increased bank loans and other borrowings during the Review Year. Facing the pressure from increasing finance costs, the Group issued the medium term notes ("MTN") at a lower interest rate to optimize its debt structure and to reduce the growth rate of the finance costs.

Income Tax

The total income tax for the Review Year was HK$64 million, representing an increase of 54.2% as compared with HK$42 million last year. The increase was mainly attributable to the corporate income tax which arose from the gain on disposal of two subsidiaries of the slaughtering business during the Review Year.

Profit attributable to equity holders of the Company

Taking into account of all the above factors, profit attributable to equity holders of the Company was approximately HK$44 million (2012: loss attributable to equity holders of the Company HK$605 million), representing a significant increase of HK$649 million.

Financial Resources

During the Review Year, the second tranche of domestic MTN with an aggregate principal amount of RMB1 billion was issued in the People's Republic of China (the "PRC") by Nanjing Yurun Food Co., Ltd., a wholly-owned subsidiary of the Company. The second tranche of the MTN is also unsecured with a term of 3 years (same as the first tranche issued in 2012) and bears a fixed interest rate of 5.27% per annum. This interest rate is lower than the interest rate of 5.49% applicable to the first tranche and more favourable compared with most of the bank loans of the Group. The Group issued the MTN at a lower interest rate to optimize its debt structure. The proceeds from the MTN have been used for repayment of short-term loans with higher interest rates and as general working capital of the Group. As at 31 December 2013, the Group's cash balance together with time deposits and pledged deposits were HK$2.490 billion, representing a decrease of HK$347 million as compared to HK$2.837 billion as at 31 December 2012, and were mainly used for daily operating activities and construction costs.

As at 31 December 2013, the Group had outstanding bank loans of HK$8.315 billion (including the MTN), representing an increase of HK$1.215 billion from HK$7.099 billion as at 31 December 2012, of which, HK$3.415 billion (2012: HK$3.618 billion) of the borrowings was bank loan repayable within one year and all of the loans of the Group were denominated in RMB. The bank loan repayable within one year is able to be revolved upon maturity. The fixed rate debt ratio of the Group increased to 62.2% as at 31 December 2013 (2012: 53.9%). Taking into account the funds used for both daily operations and investments in production facilities during the Review Year, the Group was still able to maintain prudent financial management. Having sufficient working capital together with adequate amount of unutilised credit facilities, the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group decreased significantly by 27.6% to HK$1.752 billion during the Review Year as compared with HK$2.420 billion last year.

Assets and Liabilities

As at 31 December 2013, the total assets and total liabilities of the Group were HK$26.942 billion (2012: HK$25.648 billion) and HK$10.931 billion (2012: HK$10.101 billion) respectively, representing an increase of HK$1.294 billion and HK$829 million as compared with the total assets and liabilities as at 31 December 2012 respectively.

As at 31 December 2013, property, plant and equipment of the Group amounted to HK$15.926 billion (2012: HK$14.518 billion), representing an increase of HK$1.408 billion as compared with 31 December 2012.

Lease prepayment of the Group as at 31 December 2013 amounted to HK$3.969 billion (2012: HK$3.842 billion). This represented the purchase cost of land use rights which was amortised on a straight-line basis over the respective periods of the rights.

Non-current prepayments of the Group represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2013, the prepayments amounted to HK$425 million (2012: HK$401 million). No assets have been depreciated or amortised.

As at 31 December 2013, equity attributable to equity holders of the Company was HK$15.950 billion in total, representing an increase of HK$461 million as compared with HK$15.489 billion as at 31 December 2012.

As at 31 December 2013, 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) of the Group was 34.8%, representing an increase of 2.8 percentage points as compared with 32.0% as at 31 December 2012. As at 31 December 2013, after excluding cash, time deposits and pledged deposits, the gearing ratio of the Group was 24.6% (2012: 19.5%), which is still in a reasonable level.

Charges on Assets

As at 31 December 2013, certain properties and construction in progress of the Group with a carrying amount of HK$1.019 billion, lease prepayments of the Group with a carrying amount of HK$539 million (2012: HK$418 million and HK$490 million respectively) were pledged against certain bank loans with a total amount of HK$2.110 billion (2012: HK$2.162 billion).

Certain secured loans of the Group as at 31 December 2013 amounted to HK$5.85 million (2012: HK$5.67 million) were secured by pledged deposits denominated in RMB amounting to HK$6.41 million (2012: HK$6.04 million).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, Future Plans for Material Investment or Acquisition of Capital Assets

Having considered the operation and cash flow of the Group, the Board takes a more prudent approach on capital expenditure plan for 2014. The preliminary capital expenditure plan for 2014 approved by the Board is currently expected to be approximately RMB800 million, which will be mainly used to complete the construction in progress which already commenced. As at the date of this announcement, the budget and the expenditure plan are yet to be finalised 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 or associated companies 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 2013.

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, Euros or Hong Kong dollars, the Group's transactions 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 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

To save costs, the Group implemented streamlining measures during the Review Year. As at 31 December 2013, the Group had approximately 23,000 (2012: 26,000) employees in the PRC and Hong Kong in total, decreased by approximately 3,000 employees compared with that of 31 December 2012. During the Review Year, the total staff cost was HK$857 million, accounting for 4.0% of the turnover (2012: HK$969 million, accounting for 3.6% of the turnover).

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. Remuneration to the employees offered by the Group is generally determined with reference to market conditions, individual performance and contributions. 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.

Outlook

2014 is expected to be a challenging year for Yurun Food. The management and all staff of the Group will continue to make best efforts to resume the growth of the business. The management's mission is to endeavour to grow the slaughtering volume at a stable rate and improve the gross profit margin. The Group will continue to strictly control the operation expenses and plan the capital expenditure prudently to further improve the results of the Group and strive for our promising future.

FORWARD-LOOKING STATEMENTS

This announcement contains certain forward-looking statements and information with respect to the financial condition and business of the Group which are based on current information available to and assumptions made by the management of the Group. These forward looking statements concern future events and involve risks and uncertainty that could cause actual results and performance of the Group to differ materially. Shareholders are advised not to place under reliance on any forward-looking information.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions of the Corporate Governance Code (the "CG 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") throughout the Review Year except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as Qiao Jun, an independent non-executive director, Wang Kaitian and Li Chenghua, the non-executive directors, and Yu Zhangli, the executive director and Chairman of the Board, were absent from the annual general meeting of the Company held on 21 May 2013 for their overseas or other engagements.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules 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 2013 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, 21 March 2014

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

* *For identification purposes only*