

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8096 Facsimile: 3608 6132

HONG KONG RESEARCH**20th September 2005****Main Board Listing - Research**

中國雨潤食品集團有限公司

China Yurun Food Group Limited [Stock Code: 1068]

Global Coordinator, Co-Sponsor, Bookrunner and Lead Manager : Goldman Sachs (Asia) L.L.C.
Co-Sponsor : Guotai Junan Capital Limited

Sector : Food, Beverage & Tobacco**Business** : Meat product processor and supplier

Total share offer: <u>416,090,150</u> shares (29.75% of the enlarged share capital) Public Offer: 41,610,000 shares (10%) Placing: 374,480,150 shares (90%) Greenshoe: 62,412,850 shares (15%)	<u>Business of China Yurun Food ("The Group")</u> The Group is one of the leading meat product suppliers in China. It offers a wide range of raw pork – chilled and frozen – and processed meat – low-temperature meat products ("LTMP") and high-temperature meat products ("HTMP") – marketed under the brands: "Furun", "Yurun", "Wangrun" and "Popular Meat Packing". The Group has the largest market share of sales to large-scale retailers among LTMP producers in China in terms of revenues since 2002 and was the second and the third largest chilled and frozen pork producer in China in terms of number of live pigs slaughtered in 2002 and 2003, respectively. The Group primarily focuses on providing pork products, although other meat products, such as beef and chicken, also account for a small portion of its processed meat business. In 2004, the Group sold approximately 179,000 tons of chilled and frozen pork and 85,000 tons of processed meat products. Revenue from its chilled and frozen pork product segment accounted for 70.3% of the Group's total turnover. The Group currently operates 10 chilled and frozen pork production facilities and 10 processed meat plants across China.
Price: HK\$2.85 – HK\$3.70 per share Market Cap.: HK\$3,987 million – HK\$5,177 million Forecast FY2005E P/E: 11.3x – 14.6x Adjusted NTA per share: HK\$1.02 – HK\$1.24 Staffing: 8,600	
HK Public Offer period: 20 th September 2005 – 23 rd September 2005 Receiving bank: Bank of China (Hong Kong) Bank of Communications Share registrar: Tricor Investor Services Limited Listing date: 3 rd October 2005	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Willie Holdings (BVI), 93.41% and 6.59% owned by Mr. Zhu Yicai, Chairman and Executive Director, and his wife Ms. Wu Xueqin	53.47%
CDH (BVI), wholly-owned by CDH China Fund, a private equity fund	3.65%
PVP (Singapore), wholly-owned by Government of Singapore Investment Corp (Ventures)	3.46%
EAL (HK), owned by Mr. Lam Man Sang and his brother Mr. Lin Fuqiang	0.67%
GBL (BVI) & UL (BVI), both are owned by Mr. Yap Shing Chi and his family members	2.25%
GS Funds, an investment fund wholly-owned by The Goldman Sachs Group	6.75%
	<u>70.25%</u>

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,045 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.275 each, which is the mid-point of the indicative price range)

	HK\$ million
To expand production capacity	595
Acquisitions of land use rights and production plants	157
Research and development	52
To expand and improve sales network	32
Working capital requirements and general corporate purposes	209

Financial Highlights

	Year ended 31 st December			3 months ended 31 st March
	2002	2003	2004	2005
	RMB million	RMB million	RMB million	RMB million
Turnover	1,534.9	1,938.7	2,592.7	1,091.3
Gross profit	243.5	315.9	378.0	165.6
Operating profit	103.9	154.3	265.5	119.2
Net profit	55.2	95.4	169.1	94.2
Earnings per share – Basic	RMB0.06	RMB0.104	RMB0.185	RMB0.103

Strengths/Opportunities

- ✓ Although room temperature pork has dominated the PRC market historically, there has been a growing demand for chilled and frozen pork in the past few years in affluent cities of the PRC. Driven by higher living standards and awareness of food hygiene among the public, we expect the PRC to experience continued growth for chilled and frozen pork, as well as processed pork products.
- ✓ The PRC government's recent initiatives to modernize the pig slaughtering industry have increased the amount of capital expenditure for businesses in that industry, making it difficult for small operators to compete and leading to greater consolidation in a previously fragmented industry. In addition, the popularity of modern retail chains and supermarkets as an alternative to the traditional wet markets has led to the growth of branded raw meat products supplied by well-known and reliable producers.
- ✓ In 2003, production of low-temperature meat products (LTMP), such as ham and fresh sausages, only accounted for approximately 5% of total meat product production in the PRC. The percentage was low compared with many developed countries that ranged from 20% to 40%. We believe the scope for expansion in the PRC LTMP market should be huge and the Group's leading position in this sector should enable it to capture the opportunity well.
- ✓ Valuation of the counter at 11.3x to 14.6x FY2005E P/E is priced between its 2 major rivals – 7x for Singapore-listed People's Food and 19x for A share-listed Henan Shuanghui, but lower than an average of 18x for leading Chinese food brands.

Weaknesses/Threats

- × Any occurrence of serious animal diseases, such as foot-and-mouth disease, might negatively affect the Group's business. In June, there was an outbreak of streptococcus suis disease in pigs, principally in Sichuan province, with a large number of cases of human infection following contact with diseased pigs. The Group has two chilled and frozen pork production facilities in Sichuan province, though neither of them was affected by this outbreak.
- × Brand recognition is crucial to the success of the Group's processed meat product business. However, brand recognition is difficult to achieve in a fragmented market like the PRC pork market. The lack of product differentiation like the international branded products might limit the Group's pricing power.

Recommendation: Trading Buy