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

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007

Financial Highlights

	For the six months ended 30 June		
	2007	2006	**Change**
	RMB in million	*RMB in million*	
	(Unaudited)	*(Unaudited)*	
Turnover	**3,407**	2,081	63.7%
Gross profit	**506**	354	42.9%
Profit attributable to shareholders	**380**	254	49.5%
Diluted earnings per share *(RMB)*	**0.261**	0.175	49.1%
Gross profit margin	**14.8%**	17.0%	- 2.2 percentage points
Net profit margin	**11.2%**	12.2%	- 1 percentage point

- In the first half of 2007, turnover for the Group significantly increased by 63.7% to RMB3,407 million, compared with RMB2,081 million for the same period last year. The improvement was mainly attributable to the increasing brand awareness and enhanced market efforts of the Group, which resulted in the stable increase in the sales volume of the Group's products. Increase in turnover was also attributable to the Group's launch of new downstream products with higher value-added nature to optimize its product mix in order to increase the price of the products. Finally, the Group's upstream business sticks firmly to its market-based pricing strategy which enables us to adjust the prices of upstream products as a result of the increase in live hog price.

- In the first half of 2007, gross profit for the Group was RMB506 million, representing an increase of 42.9%, reflecting the Group's healthy profitability though the market price of live hog was fairly volatile during the review period.

- The Group's net profit for the period was RMB380 million, up 49.5% from RMB254 million recorded in the same period in 2006. The increase was mainly contributed from the increases in the operating profit of core business and other operating income.

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 unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2007. The interim financial report for the six months ended 30 June 2007 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the interim report to be sent to shareholders. The results have also been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Turnover	2	**3,407,395**	2,081,006
Cost of sales		**(2,901,673)**	(1,727,016)
Gross profit		**505,722**	353,990
Other operating income	4	**117,708**	47,435
Distribution expenses		**(135,467)**	(103,897)
Administrative and other operating expenses		**(85,398)**	(44,138)
Operating profit before net financing income		**402,565**	253,390
Financial income		**9,248**	10,881
Financial expenses		**(6,520)**	(7,513)
Net financing income	5(a)	**2,728**	3,368
Share of profits less losses of an associate		**(487)**	(692)
Profit before tax	5	**404,806**	256,066
Income tax expense	6	**(24,193)**	(1,819)
Profit for the period		**380,613**	254,247
Attributable to:			
Equity holders of the Company		**380,259**	254,390
Minority interests		**354**	(143)
		380,613	254,247
Earnings per share			
Basic *(RMB)*	8(a)	**0.262**	0.175
Diluted *(RMB)*	8(b)	**0.261**	0.175

CONSOLIDATED BALANCE SHEET

As at 30 June 2007 — unaudited
(Expressed in Renminbi)

	Note	**30 June 2007** *RMB'000*	31 December 2006 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,195,220**	933,891
Lease prepayments		**362,157**	220,238
Investment in an equity accounted investee		**3,517**	4,004
Non-current prepayments		**129,120**	116,916
Deferred tax assets		**12,821**	18,396
		1,702,835	1,293,445
Current assets			
Tax recoverable		**5,186**	—
Inventories		**504,582**	513,922
Other investments		**1,000**	2,000
Trade and other receivables	9	**592,076**	492,111
Amounts due from related companies		**—**	4,080
Pledged deposits		**—**	1,818
Cash and cash equivalents		**778,331**	843,956
		1,881,175	1,857,887
Current liabilities			
Bank loans		**95,000**	43,000
Finance lease liabilities		**419**	516
Trade and other payables	10	**463,375**	377,957
Amounts due to related companies		**—**	72,735
Income tax payable		**19,423**	7,337
		578,217	501,545
Net current assets		**1,302,958**	1,356,342
Total assets less current liabilities		**3,005,793**	2,649,787

Non-current liabilities		
Bank loans	**50,000**	—
Finance lease liabilities	**165,323**	187,665
Deferred tax liabilities	**217**	948
	215,540	188,613
Net assets	**2,790,253**	2,461,174
Shareholders' equity		
Share capital	**151,003**	151,003
Reserves	**2,626,440**	2,297,715
Total equity attributable to shareholders of the Company	**2,777,443**	2,448,718
Minority interests	**12,810**	12,456
Total equity	**2,790,253**	2,461,174

Notes:

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with International Accounting Standard 34, "Interim financial reporting" promulgated by the International Accounting Standards Board. It was authorised for issuance on 29 August 2007. The unaudited consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

2. Segment reporting

The Group's primarily format for reporting segment information is business segments, which comprises the following main business 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, such as sausages and hams.

Revenue from external customers represents sales value of goods sold to customers excludes value added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts.

For the six months ended 30 June

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**2,537,390**	1,421,097	**870,005**	659,909	**—**	—	**3,407,395**	2,081,006
Inter-segment revenue	**234,336**	112,906	**—**	—	**(234,336)**	(112,906)	**—**	—
Segment revenue	**2,771,726**	1,534,003	**870,005**	659,909	**(234,336)**	(112,906)	**3,407,395**	2,081,006
Segment results	**281,591**	136,868	**139,936**	132,401	**—**	—	**421,527**	269,269
Unallocated income and expenses							**(40,914)**	(15,022)
Profit for the period							**380,613**	254,247

3. Business combinations

(a) Xinyu Runhe Meat Product Co., Ltd ("Xinyu Runhe")

On 5 January 2007, the Group acquired a 100% equity interest of Xinyu Runhe from independent third parties at a cash consideration of RMB70,693,000. Details of Xinyu Runhe at 30 June 2007 are as follows:

Name of company	**Registered capital**	**Principal activities**	**Results contributed by the company from the date of acquisition to 30 June 2007** *RMB'000*
Xinyu Runhe 新餘潤合肉類食品有限公司	RMB10,000,000	Slaughtering, production and sale of chilled and frozen meat	40,734

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

This entity is a domestic company established in the PRC.

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition *RMB'000*	**Fair value adjustment** *RMB'000*	**Pre-acquisition carrying amounts** *RMB'000*
Property, plant and equipment	45,078	24,875	20,203
Lease prepayments	48,345	20,941	27,404
Other net current liabilities	(22,730)	1,100	(23,830)
Net identifiable assets acquired	70,693	46,916	23,777
Cash acquired	(422)		
Net cash outflow	70,271		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007.

(b) Huaxin Food Factory ("Huaxin")

On 8 January 2007, the Group acquired the entire business operations of slaughtering, production and sale of chilled and frozen meat together with the relevant assets of Huaxin from Shandong Province Shanghe County Economic and Trade Commission (山東商河縣經濟貿易局), an independent third party, at a cash consideration of RMB100,000 and injected the relevant business operations and assets into Jinan Wanrun Meat Processing Co., Ltd. Details of Huaxin are as follows:

Name of company	**Principal activities**	**Results contributed by the company from the date of acquisition to 30 June 2007** *RMB'000*
Huaxin 華信食品廠	Slaughtering, production and sale of chilled and frozen meat	58,173

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

The acquisition had the following effect on the Group's assets.

	Recognised values on acquisition	**Fair value adjustment**	**Pre-acquisition carrying amounts**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	24,708	16,030	8,678
Lease prepayments	25,368	25,368	—
Net identifiable assets acquired	50,076	41,398	8,678
Consideration	100		
Negative goodwill arising on acquisition *(note 4)*	49,976		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007. Huaxin had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on acquisition which resulted in a negative goodwill.

(c) ***Lixian Huatai Meat Product Co., Ltd. ("Lixian Huatai")***

On 14 February 2007, the Group acquired a 100% equity interest of Lixian Huatai from independent third parties at a cash consideration of RMB59,048,000. Details of Lixian Huatai at 30 June 2007 are as follows:

Name of company	**Registered capital**	**Principal activities**	**Results contributed by the company from the date of acquisition to 30 June 2007**
			RMB'000
Lixian Huatai 澧縣華泰肉類食品有限公司	RMB10,000,000	Slaughtering, production and sale of chilled and frozen meat	(512)

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

This entity is a domestic company established in the PRC.

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition *RMB'000*	Fair value adjustment *RMB'000*	Pre-acquisition carrying amounts *RMB'000*
Property, plant and equipment	57,639	25,375	32,264
Lease prepayments	20,305	9,635	10,670
Other net current liabilities	(18,896)	1,092	(19,988)
Net identifiable assets acquired	59,048	36,102	22,946
Cash acquired	(3,427)		
Net cash outflow	55,621		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007.

(d) Dujiangyan Xiangrui Food Co., Ltd. ("Dujiangyan Xiangrui")

On 24 May 2007, the Group acquired a 100% equity interest of Dujiangyan Xiangrui from independent third parties at a cash consideration of RMB98,466,000. Details of Dujiangyan Xiangrui at 30 June 2007 are as follows:

Name of company	Registered capital	Principal activities	Results contributed by the company from the date of acquisition to 30 June 2007 *RMB'000*
Dujiangyan Xiangrui 都江堰祥瑞肉類加工有限公司	RMB5,000,000	Slaughtering, production and sale of chilled and frozen meat	(504)

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

This entity is a domestic company established in the PRC.

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition *RMB'000*	Fair value adjustment *RMB'000*	Pre-acquisition carrying amounts *RMB'000*
Property, plant and equipment	57,101	19,904	37,197
Lease prepayments	54,180	54,180	—
Other net current liabilities	(12,815)	(1,135)	(11,680)
Net identifiable assets acquired	98,466	72,949	25,517
Cash acquired	(1,355)		
Net cash outflow	97,111		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007.

(e) ***Henan Yurun Beixu Meat Food Company Limited ("Yurun Beixu")***

On 18 June 2006, the Group acquired a 75% equity interest of Yurun Beixu from an independent third party at a cash consideration of RMB750,000. Details of Yurun Beixu at 30 June 2007 and 2006 are as follows:

Name of company	Registered capital	Principal activities	Percentage of equity interest acquired	Results contributed by the company from the date of acquisition to 30 June 2006 *RMB'000*
Yurun Beixu 河南雨潤北徐肉類食品有限公司	RMB1,000,000	Slaughtering, production and sale of chilled and frozen meat	75%	(575)

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

This entity is a domestic company established in the PRC. The entity had minimal operation before the acquisition by the Group.

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition *RMB'000*	**Fair value adjustment** *RMB'000*	**Pre-acquisition carrying amounts** *RMB'000*
Property, plant and equipment	43,039	32,788	10,251
Lease prepayments	10,289	10,289	—
Cash and cash equivalents	1,000	—	1,000
Net identifiable assets	54,328	43,077	11,251
Minority interests	(13,582)		
Net identifiable assets acquired	40,746		
Negative goodwill arising on acquisition *(note 4)*	(39,996)		
Total purchase price paid, satisfied in cash	750		
Cash acquired	(1,000)		
Net cash inflow	(250)		

Negative goodwill has arisen on the acquisition of Yurun Beixu as a result of bargain purchase.

4. Other operating income

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Government subsidies	**58,475**	600
Recognition of negative goodwill arising on business combinations *(note 3)*	**49,976**	39,996
Rental income	**499**	585
Others	**8,758**	6,254
	117,708	47,435

5. Profit before tax

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

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
(a) Net financing income:		
Interest on bank and other loans wholly repayable within five years	**2,568**	544
Bank charges	**388**	137
Interest on lease obligations	**3,025**	6,749
Foreign exchange loss	**539**	83
Interest income	**(9,248)**	(10,881)
	(2,728)	(3,368)
(b) Other items:		
(Reversal of)/impairment losses on trade and other receivables	**(3,643)**	2,351
Depreciation	**35,670**	21,624
Operating lease charges		
— premises	**446**	257
— land use rights	**274**	1,093
Loss/(gain) on disposal of property, plant and equipment	**1,028**	(467)
Amortisation of lease prepayments	**3,262**	8

6. Income tax expense

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Current tax expense	**23,899**	2,595
Deferred tax expense/(income)	**294**	(776)
	24,193	1,819

(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 for the six months ended 30 June 2007.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a rate of 33 per cent during the six months ended 30 June 2007 (30 June 2006: 33%), except for the following:

(i) The companies comprising the Group which are foreign invested enterprises in the PRC are entitled to a tax concession period during which they are fully exempted from PRC enterprise income tax for two years starting from its first profit-making year, followed by a 50 per cent reduction in the PRC enterprise income tax for the next three years.

(ii) Anhui Furun Meat Processing Co. Ltd. ("Anhui Furun"), was awarded a "State-Level Agricultural Leading Enterprise" by the central government of the PRC in December 2002. Pursuant to Guoshuifa (2001) No. 124, a State-Level Agricultural Leading Enterprise is eligible to full exemption from PRC enterprise income tax. A subsidiary of more than a 50 per cent equity interest owned by a State-Level Agricultural Leading Enterprise is also entitled to exemption of PRC enterprise income tax if it is involved in the primary processing of agricultural products. Subsidiaries of Anhui Furun that satisfied the above conditions were entitled to full exemption from PRC enterprise income tax since the date they become subsidiaries of Anhui Furun.

(iii) Pursuant to Xinzhengfa (2002) No. 29 and the investment agreement entered into with the Administration Committee of Xinjiang Shihezi Economic and Technological Development Zone ("新疆石河子市經濟技術開發區管委會"), Xinjiang Yurun Food Co., Ltd. ("Xinjiang Yurun") is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for five years starting from its first profit-making year, followed by a reduced PRC enterprise income tax at 15 per cent for the remaining years through 2010.

(d) The Group's consolidated effective tax rate for the six months ended 2007 was 6.0% (for the six months ended 30 June 2006: 0.7%). This change in effective tax rate was mainly due to the PRC tax exemption of certain companies comprising the Group which are foreign invested enterprises in the PRC expired during the six months ended 30 June 2007. Since 1 January 2007, these companies are entitled a 50% reduction in the PRC enterprise income tax for the three years ending 31 December 2009.

7. Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interim dividend proposed after the balance sheet date of HK$0.070 (approximate to RMB0.070) per share (six months ended 30 June 2006: HK$0.042 (approximate to RMB0.044) per share)	**101,637**	63,421

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

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Final dividend in respect of the year ended 31 December 2006, approved and paid during the following interim period, of HK$0.042 (approximate to RMB0.042) per share (year ended 31 December 2005: HK$0.065 (approximate to RMB0.068) per share)	**60,982**	98,152

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of RMB380,259,000 (six months ended 30 June 2006: RMB254,390,000) and the weighted average number of ordinary shares of 1,451,953,000 (2006: 1,451,953,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB380,259,000 (six months ended 30 June 2006: RMB254,390,000) and the weighted average number of ordinary shares of 1,456,565,000 (2006: 1,451,953,000).

9. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses) with the following ageing analysis:

	30 June	31 December
	2007	2006
	RMB'000	*RMB'000*
Within 30 days	**295,041**	209,434
31 days to 90 days	**107,584**	89,565
91 days to 180 days	**28,784**	15,741
Over 180 days	**7,359**	8,023
Total trade debtors and bills receivable, net of impairment loss	**438,768**	322,763
Value-added tax recoverable	**100,190**	107,817
Deposits and prepayments	**19,672**	37,076
Other debtors	**33,446**	24,455
	592,076	492,111

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

10. Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	30 June 2007 *RMB'000*	31 December 2006 *RMB'000*
Within 30 days	**157,117**	157,481
31 days to 90 days	**21,325**	31,115
91 days to 180 days	**69,531**	10,781
Over 180 days	**21,381**	13,166
Total trade creditors and bills payable	**269,354**	212,543
Receipts in advance	**55,732**	44,230
Other payables and accruals	**138,289**	121,184
	463,375	377,957

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.070 (equivalent to approximately RMB0.070) per ordinary share (2006: HK$0.042). Further announcement regarding the payable and the related book close dates will be made in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

During the first half of 2007, China maintained a strong momentum of economic growth. According to the National Bureau of Statistics of China, the domestic economic growth rate of China in the first half of the year was 11.5% with the per capita average disposable income of urban residents reaching RMB7,052, representing an increase of 17.6% over that of last year. The higher growth rate of per capita disposable income than the economic growth rate demonstrates the strong consumption potential of the Chinese consumers, resulting in a growing demand for high-quality meat products of well-known brands.

In the hog market in China, meat processing enterprises were faced with a relatively challenging environment of supply and demand dynamics as well as pricing. Since the beginning of this year, as a result of a short-term imbalance between domestic hog supply and demand, coupled with a substantial price increase for major feeds such as corn which drove up the costs of raising hogs, domestic hog prices further increased during the first half of 2007, following a significant rebound during the second half of 2006. According to the Ministry of Agriculture, the national average domestic hog price during the first half of 2007 was as high as RMB9.71 per kilogram, representing an increase of 46% over RMB6.65 per kilogram during the corresponding period of the preceding year. The supply and demand gap and the continuous increase in the prices for hogs presented greater challenges to the overall management and operation of Chinese meat processors in many aspects, such as supply chain management, market pricing power and cost control.

Meanwhile, the Chinese government further strengthened its administrative oversight of the industry during the first half of 2007 to ensure the steady and healthy growth in the hog and pork products market, creating favourable environment and opportunities for the mid-term as well as long-term development of the meat processors. In order to relieve the tight supply of hogs, the Chinese government enacted a number of measures such as granting allowances for breeding reproductive sows to encourage farmers to rear hogs, increasing market supply, and ensuring a balanced supply and demand and stabling hog prices. On the other hand, as an integral part of the efforts to strengthen the regulation on the hog slaughtering business and promote orderly development of the slaughtering industry, the Chinese government implemented the "Accreditation Measures of Qualification Grades for Live Pig Slaughter-Houses" in the first half of 2007 and continued the drafting of the "Administrative Provisions for Live Pig Slaughtering (Second Draft)", laying solid foundations for the orderly and healthy development of the industry.

China is currently the largest pork market in the world. But the Chinese pork processing sector is still highly fragmented. At present, the number of pigs slaughtered by the top three meat processors is less than 5% of the nationwide total amount. The level of process automation, overall technical standards and equipment quality of the pig slaughtering enterprises in China significantly lag behind international peers. As the Chinese government further strengthens its regulation on the pig slaughtering industry, large-scaled domestic modern meat processors will be able to enhance their market position and benefit from greater potential for further market growth.

Business Review

With our leading brand image and market position, successful marketing strategy on medium and high end market segments, extensive experiences in management and operation, as well as our flexible and solid capacity expansion strategies, the Group continued to record a strong growth despite the challenging business environment during the first half of 2007. As the key drivers of our business expansion, low temperature meat products ("LTMP") and chilled pork both recorded rapid growth in sales volume.

During the period under review, the Group pursued an effective branding strategy. Through advertising on China Central Television and various mobile media, the promotion of our flagship "Yurun" brand in the LTMP and chilled pork market proved to be successful, ensuring our pricing power to maintain profit margin in the face of continuously increasing hog procurement costs. In addition, the Group's nationwide network of production facilities, efficient supply chain management, as well as sound and flexible management, operation and marketing strategies all contributed to the successful implementation of the Group's business strategy and the rapid growth in our core product lines and market coverage despite adverse circumstances such as short-term imbalance in domestic hog supply and demand and continuously increasing hog prices.

Leveraging on our strong brand recognition and mature operational system, the Group took advantage of favourable industry consolidation opportunities in the domestic hog slaughtering sector and continued to expand its production capacity expansion and market share through flexible measures including green field and brown field projects as well as acquisitions. Following the acquisition of three companies in Beixu, Jinan and Badong in 2006, we completed three other acquisitions in Jiangxi, Hunan and Sichuan provinces in the first half of 2007. These strategic expansions further optimized our hog procurement network, ensured a stable supply of raw materials at competitive costs, enlarged our multi-level coverage on target markets, perfected our live pig supply chain and strengthened integrated nationwide network of procurement, processing and sales, enhanced our market share, and will also played a very important role in boosting the sustainable and rapid growth of the Group's businesses.

Sales and Distribution

During the first half of 2007, the Group continued to strengthen its brand promotion through various channels such as advertising in China Central Television and mobile media, resulting in very satisfactory performance in our LTMP and chilled pork businesses.

With respect to our target markets and distribution network, the Group continued to focus on its sales model of direct sales supplemented with distribution through independent distributors. By reinforcing its co-operation with supermarkets and chain stores, the Group has enhanced its sales contribution through these direct sales channels. During the first half of 2007, chain stores and supermarkets accounted for 39.1% and 54.5% of our upstream and downstream sales respectively, increasing 3.1 and 8.3 percentage points over the corresponding period of the preceding year respectively. Meanwhile, the Group further strengthened its co-operation with high-end hotels and catering chains so as to enhance profitability by increasing sales of products with high margin and high added-value. During the first half of 2007, our sales to high-end hotels increased by 44.3% on a year-over-year basis, representing 10.1% of our downstream turnover, up by 1 percentage point as compared to the corresponding period in 2006, while sales of our upstream products to catering chains increased by 1.1 percentage points over the corresponding period in 2006 to 9.0% of the our upstream business turnover.

During the period under review, our turnover from LTMP increased by 36.8% over the last corresponding period to RMB761 million, representing 20.9% (first half of 2006: 25.4%) of the Group's total turnover before inter-segment elimination. The turnover of chilled pork increased by 85.7% over the last corresponding period and reached RMB1,682 million, representing 46.2% (first half of 2006: 41.3%) of the Group's total turnover before inter-segment elimination.

Production Facilities and Capacity

In order to meet the growing market demand for our products, the Group continued to expand production capacity through selective acquisitions and green field as well as brown field projects.

In the downstream business, as the production capacity in Nanjing and Xinjiang continued to expand and the new plant in Harbin commenced operation, the Group's downstream production capacity during the period grew significantly. As of 30 June 2007, the Group's annual downstream production capacity reached 187,000 tons (first half of 2006: 168,000 tons), representing an increase of 11.3% over the last corresponding period. Furthermore, the construction of the processing plants in Maanshan and Shenyang is in progress and they are expected to be completed by the end of 2007, adding an aggregate production capacity of 30,000 tons. Our downstream capacity expansion not only further improved our market coverage in east, northeast and north China, but also established sufficient infrastructure for new product launches and the sustainable rapid development of our downstream business.

As for the upstream business, the Group invested RMB228 million in acquiring three hog slaughtering companies in Jiangxi Province, Hunan Province and Sichuan Province, which increased the annual aggregate slaughtering capacity by 1.5 million heads. This established the foundation for capacity expansion in 2007 and strengthened the Group's market position in central and southwestern China. In addition, the Group's new slaughtering facility in Harbin commenced operation during the period, further expanding the Group's production capacity in northeastern China. As of 30 June 2007, the Group's annual hog slaughtering capacity reached 12.05 million heads (first half of 2006: 8.86 million heads), representing an increase of 36.0% as compared with the last corresponding period.

Financial Review

For the six months ended 30 June 2007, benefiting from rapid growth in sales volumes and significant increase in product price, the Group's turnover reached RMB3.407 billion (first half of 2006: RMB2.081 billion), representing an increase of 63.7% over the last corresponding period. The Group also reported a net profit of RMB380 million (first half of 2006: RMB254 million) for the period, representing an increase of 49.5% compared to the last corresponding period, or RMB330 million (first half of 2006: RMB214 million) net of negative goodwill, representing an increase of 54.1% over the last corresponding period. Diluted earnings per share was RMB0.261 (first half of 2006: RMB0.175), representing an increase of 49.1% compared to the last corresponding period.

Turnover

Processed Meat Products

For the six months ended 30 June 2007, the Group's downstream sales increased by 31.8% over the last corresponding period to RMB870 million, of which LTMP and high temperature meat products ("HTMP") accounted for RMB761 million (or 87.5%) and RMB109 million (or 12.5%) respectively, representing an increase of 36.8% and 4.9% compared to the last corresponding period respectively. Sales volume of LTMP was up by 25.8% due to the Group's established brand image and marketing promotions. In addition, the Group's continuous efforts on launching high value-added new products, optimization of product mix and timely adjustment in product prices also contributed to the rapid growth in sales of the processed meat business.

Chilled and Frozen Pork

For the six months ended 30 June 2007, the Group's upstream sales increased by 80.7% over the last corresponding period to RMB2.772 billion, of which chilled and frozen pork accounted for RMB1.682 billion (or 60.7%) and RMB1.09 billion (or 39.3%) respectively, representing an increase of 85.7% and 73.5% as compared to the corresponding period respectively. Such increase was mainly due to the steady increase in the Group's slaughtering capacity and the Group's market-oriented pricing strategy by adjusting upstream product prices accordingly when hog prices rose significantly.

Gross Profit and Gross Margin

As of 30 June 2007, the Group's gross profit was RMB506 million, representing an increase of 42.9% compared to the last corresponding period (first half of 2006: RMB354 million); the Group's overall gross margin was 14.8%, a slight decrease compared with 17.0% in the first half of 2006, but remained at a similar level as compared with 14.1% in the second half of 2006. During the period under review, an increased proportion of upstream sales resulted in a decrease in the overall gross margin as gross margin of the upstream business was lower than that of the downstream business.

For the downstream business, the gross margin of LTMP was 27.0%, similar to the level recorded in the first half of 2006, while up 2.1 percentage points compared to the second half of 2006. Gross profit margin of HTMP segment was 18.3%, representing a decrease of 1.8 and 0.5 percentage points compared to the first half and second half of 2006 respectively. Overall gross margin of the downstream business was 25.9%, similar to 26.2% recorded in the first half of 2006, representing an increase of 2.0 and 0.9 percentage points compared to 23.9% in the second half of 2006 and 25% in the whole year of 2006 respectively. Despite of the soaring hog price during the period, the gross margin of LTMP remained stable, mainly due to the Group's effective cost control on raw pork coupled with an increase in product price of LTMP, as well as enhanced sales contribution for high margin and high value-added products.

For the upstream business, the gross margin of chilled pork was 11.5%, representing a decrease of 2.5 and 0.9 percentage points compared with 14.0% in the first half of 2006 and 12.4% for the whole year of 2006 respectively. Gross margin of frozen pork was 8.1%, increasing 0.2 and 0.6 percentage points compared with 7.9% in the first half of 2006 and 7.5% for the whole year of 2006 respectively. The overall gross margin of the upstream business was 10.1%, representing a decrease of 1.4 percentage points compared with 11.5% in the first half of 2006, similar to 10.3% registered for the whole year of 2006. Despite substantial increase in hog prices, the Group sustained a stable gross margin for the upstream business by strengthening sales efforts on chilled pork, executing market-oriented pricing policy, as well as a flexible sales strategy for chilled and frozen pork.

Other Operating Income

Other operating income mainly includes government subsidies and negative goodwill. For the six months ended 30 June 2007, the Group had other operating income of RMB117.71 million, representing an increase of 148.1% from RMB47.44 million of the last corresponding period, of which RMB58.48 million (first half of 2006: RMB600,000) was government grants as an incentive to the Group's business development.

Operating Expenses

Operating expenses include marketing expenses, administrative expenses and other operating expenses. For the six months ended 30 June 2007, the Group had operating expenses of RMB221 million, an increase of 49.2% compared to RMB148 million for the last corresponding period. The increase was mainly due to the Company's promotion efforts through mainstream and mobile media channels, higher transportation cost due to sales volume growth and increased administrative expenses due to the granting of employee share options started from the end of last year. Operating expenses represented 6.5% of the Group's turnover, down 0.6 percentage point compared to 7.1% for the last corresponding period.

Operating Profit

For the six months ended 30 June 2007, the Group's operating profit was RMB403 million, an increase of 58.9% from RMB253 million in the last corresponding period. Operating profit, if net of negative goodwill, would be RMB353 million, representing an increase of 65.2% (first half of 2006: RMB213 million) compared to the last corresponding period.

Net Financing Cost

For the first half of 2007, the Group had a net financing income of RMB2.73 million, compared to RMB3.37 million in the first half of 2006.

Income Tax

For the six months ended 30 June 2007, the Group's income tax expenses were RMB24.19 million with an effective tax rate of 6.0%, representing an increase of RMB22.37 million in income taxes and 5.3 percentage points in effective tax rate, as compared to RMB1.82 million in income tax and an effective tax rate of 0.7% during the same period last year. The primary reason was that from 2007, the Group's subsidiaries in the processed meat segment started to pay enterprise income tax under the preferential tax policy of "exemption for two years and 50% tax reduction for the subsequent three years" applicable for foreign investment enterprises. However, as most of our slaughtering enterprises were entitled to relevant tax preferential treatment specialized for State-Level Agricultural Leading Enterprise, they were exempted from corporate income tax.

Net Profit

Taking all the above factors into account, net profit for the first half of 2007 increased 49.5% to RMB380 million, from RMB254 million in the same period of 2006. Net profit margin for the first half of 2007 was 11.2%, representing a decrease of 1.0 percentage point compared with 12.2% in the first half of 2006.

Financial Resources

The Group's major financial resources were cash inflow from operating activities and the proceeds from our global offering in 2005. The cash balance as of 30 June 2007 was RMB778 million, RMB66 million less than our cash balance on 31 December 2006. The cash inflow from operating activities during the period was RMB362 million, an increase of 129.8% compared to the last corresponding period.

During the period under review, the Group used capital for strategic acquisitions and investments in production facilities, while maintaining stable financial management and adequate liquidity for daily operations and other capital needs.

Assets and Liabilities

As of 30 June 2007, the Group's total assets were RMB3.584 billion, an increase of RMB433 million compared with 31 December 2006. The Group's total liabilities were RMB794 million as at 30 June 2007, an increase of RMB104 million compared to 31 December 2006. As of 30 June 2007, the Group's total equity was RMB2.79 billion. Total equity attributable to shareholders excluding minority interests was RMB2.777 billion, representing an increase of RMB329 million compared with 31 December 2006. As at 30 June 2007, the Group's gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders excluding minority interests) was 10.1%, a slight increase over 8.6% as at 31 December 2006.

Foreign Exchange Risk

Most of the Group's income and expenses are denominated in Renminbi. For the six months ended 30 June 2007, the Group did not experience any material difficulties or negative effects on its operations or liquidity arising from currency exchange rate fluctuation.

Human Resources

As of 30 June 2007, the Group had 13,112 (30 June 2006: 10,358) employees in the mainland China and Hong Kong. Total staff costs (including directors' remuneration) for the period were RMB118 million, accounting for 3.5% of the Group's total turnover (same period in 2006: RMB72 million, accounting for 3.5% of total turnover). The Group offered competitive remuneration and performance-based bonuses and established a share option scheme as incentive for innovation and improvements, which was in line with industry practice. The Group provided other employee benefits including contributions to social security scheme such as retirement benefit schemes. In addition, our management has provided continuing education and professional training for employees to help upgrade their skills and knowledge as well as developing team spirit on an on-going basis.

Prospects

The PRC slaughtering and meat processing industry experienced a rapid growth in recent years. In 2006, the industry realized a gross value of total industrial output of RMB270.1 billion, increasing almost 22% over the preceding year. We expect the growth momentum will continue for the second half of 2007. As pork is the primary meat of choice among Chinese consumers, the pork consuming market is expected to continue growing rapidly and provide the Group substantial development opportunities.

We expect the hog price to remain at a relatively high level in the second half of 2007. In order to alleviate the tension between hog demand and supply, and to procure a healthy development in hog breeding, the Chinese government has implemented various measures to encourage farmers to breed hogs. Such measures include providing insurance subsidy for breeding reproductive sow and increasing financial supports for epidemic prevention. In addition, the PRC government is committed to regulating the industry which will accelerate industry consolidation. We expected new regulations related to slaughtering will be promulgated in the near future. As such, small-scale slaughtering enterprises with low hygiene standard will fade out, while those with solid capability will have more development opportunities.

Yurun Food, as one of the largest meat products manufacturers in the PRC, benefits from its strong brand recognition, nationwide production network, mature and efficient supply chain management, extensive marketing channels, as well as strong research and development capability for new products. The Group will continue to implement the following strategies in order to maximize the return to its shareholders:

- Leverage on the market opportunities in the upgrading of consumer mix in large and medium cities in China, and strengthen Yurun Food's market position and established image as a "healthy, quality, tasty and high-end" brand through advertising in mainstream media, so as to achieve rapid sales growth of LTMP and chilled pork products over the next 3 to 5 years;

- On the backdrop of the expected consolidation trend in the meat processing sector toward a industry characterized with a reasonable concentration of large-scale and efficient enterprises, we will take advantage of the favourable government policies to further increase our upstream and downstream capacities through acquisition and green field and brown field projects, laying down a solid foundation to catch up with the increasing market demand for our products;

- Further strengthen our research and development, continued promotions on high value-added products, as well as sales force in middle-end and high-end markets, and leverage our market-orientated pricing mechanism to ensure a generally stable level of gross margin; and

- Continue to develop new markets and increase both breadth and depth of our market coverage to take advantage of the regional economic development trend of gradual development from the coastal area to inland regions and the deepening of urbanization in China.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2007.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as its own code of conduct regarding the Directors' securities transactions. The Company, having made specific enquiry of all Directors, confirms that its Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2007.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2007.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 29 August 2007

As at the date of this announcement, the executive directors of the Company are Zhu Yicai, Zhu Yiliang, Zhang Yuanfei, Feng Kuande and Ge Yuqi; the non-executive directors are Jiao Shuge (*alias* Jiao Zhen) and Liu Yi Lan, Katherine; and the independent non-executive directors are Zheng Xueyi, Kang Woon and Gao Hui.

* *For identification purposes only*

This announcement can also be accessed through the Internet on the Company's website www.yurun.com.hk