CHINA YURUN FOOD GROUP LIMITED

中國雨潤食品集團有限公司*

(incorporated in Bermuda with limited liability)

Website: http://www.yurun.com.hk

(Stock Code: 1068)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2008	2007	Growth
	HK$ in million	*HK$ in million*	
	(Unaudited)	*(Unaudited)*	
Turnover	**6,043**	3,450	75.2%
Gross profit	**821**	512	60.3%
Profit attributable to equity holders	**672**	393	70.9%
Diluted earnings per share *(HK$)*	**0.435**	0.270	61.1%

- The Group maintained a robust revenue growth with turnover increased significantly by 75.2%.
- Gross profit and profit attributable to equity holders increased by 60.3% and 70.9% respectively, demonstrating a strong growth momentum.
- Diluted earnings per share rose sharply by 61.1%.

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 2008. The interim financial report for the six months ended 30 June 2008 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 2008 — unaudited

	Note	**Six months ended 30 June 2008** *HK$'000*	2007 *HK$'000*
Turnover	2	**6,043,452**	3,449,646
Cost of sales		**(5,222,671)**	(2,937,654)
Gross profit		**820,781**	511,992
Other operating income	4	**189,036**	118,556
Distribution expenses		**(243,496)**	(137,147)
Administrative and other operating expenses		**(143,250)**	(86,231)
Results from operating activities		**623,071**	407,170
Finance income		**135,969**	17,445
Finance expenses		**(25,320)**	(6,056)
Net financing income	5(a)	**110,649**	11,389
Share of loss of an equity accounted investee (net of income tax)		**(498)**	(493)
Profit before income tax	5	**733,222**	418,066
Income tax expense	6	**(60,806)**	(24,493)
Profit for the period		**672,416**	393,573
Attributable to:			
Equity holders of the Company		**672,070**	393,215
Minority interests		**346**	358
Profit for the period		**672,416**	393,573
Earnings per share			
Basic *(HK$)*	8(a)	**0.440**	0.271
Diluted *(HK$)*	8(b)	**0.435**	0.270

CONSOLIDATED BALANCE SHEET

At 30 June 2008 — unaudited

	Note	**30 June 2008** *HK$'000*	31 December 2007 *HK$'000*
Non-current assets			
Property, plant and equipment		**2,425,210**	1,779,261
Investment property		**229,450**	219,585
Lease prepayments		**860,950**	722,662
Investment in an equity accounted investee		**3,216**	3,504
Non-current prepayments		**349,290**	233,425
Deferred tax assets		**12,272**	12,554
		3,880,388	2,970,991
Current assets			
Inventories		**954,551**	681,813
Other investments		**239,504**	1,073
Current portion of lease prepayments		**18,489**	15,451
Trade and other receivables	9	**699,484**	708,745
Income tax recoverable		**8,210**	3,718
Pledged deposits		**25,212**	29,728
Cash and cash equivalents		**1,686,945**	1,965,966
		3,632,395	3,406,494
Current liabilities			
Bank loans		**619,598**	267,571
Finance lease liabilities		**499**	459
Trade and other payables	10	**781,410**	755,958
Amounts due to related companies		**1,242**	—
Income tax payable		**26,122**	19,021
		1,428,871	1,043,009
Net current assets		**2,203,524**	2,363,485
Total assets less current liabilities		**6,083,912**	5,334,476

	Note	30 June 2008 HK$'000	31 December 2007 HK$'000
Non-current liabilities			
Bank loans		**716,739**	826,430
Finance lease liabilities		**188,307**	177,206
Deferred tax liabilities		**31,741**	—
		936,787	1,003,636
Net assets		**5,147,125**	4,330,840
Equity			
Share capital		**153,057**	152,695
Reserves		**4,789,764**	3,986,480
Total equity attributable to equity holders of the Company		**4,942,821**	4,139,175
Minority interests		**204,304**	191,665
Total equity		**5,147,125**	4,330,840

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 26 August 2008. The unaudited consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The Company changed its presentation currency from Renminbi to Hong Kong dollars, which is the Company's functional currency, in 2007. Comparative financial information has been re-translated to Hong Kong dollars.

2. Turnover and segment information

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**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**4,638,232**	2,568,853	**1,405,220**	880,793	**—**	—	**6,043,452**	3,449,646
Inter-segment revenue	**514,545**	237,242	**—**	—	**(514,545)**	(237,242)	**—**	—
Segment revenue	**5,152,777**	2,806,095	**1,405,220**	880,793	**(514,545)**	(237,242)	**6,043,452**	3,449,646
Segment results	**468,299**	284,472	**169,896**	141,671	**—**	—	**638,195**	426,143
Unallocated income and expenses							**34,221**	(32,570)
Profit for the period							**672,416**	393,573

3. Business combination

Keshan Meat Processing Factory ("Keshan")

On 30 June 2008, the Group acquired the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Keshan from Heilongjiang Province Keshan Local County Government (黑龍江省克山縣人民政府), at a cash consideration of HK$11,000.

For the six months ended 30 June 2008, the fair values to be assigned to the identifiable assets and liabilities, and hence the negative goodwill of HK$101,987,000 (note 4), can only be determined provisionally. Management is in the midst of reassessing the fair values of the identifiable assets and liabilities at the acquisition date. Management would recognise any adjustments to the provisional values of the acquired identifiable assets and liabilities on a retrospective basis from the acquisition date before 30 June 2009. From the date of acquisition to 30 June 2008, Keshan contributed profit of HK$101,987,000. The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2008. Keshan 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.

4. Other operating income

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Government subsidies	**66,029**	59,200
Recognition of negative goodwill arising on business combinations (note 3)	**101,987**	49,976
Rental income	**8,956**	505
Sales of scrap	**1,584**	1,194
Others	**10,480**	7,681
	189,036	118,556

5. Profit before income tax

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

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
(a) Net financing income:		
Interest on bank and other loans wholly repayable within five years	**21,455**	2,600
Bank charges	**516**	393
Interest on lease obligation	**3,349**	3,063
Foreign exchange gain	**(112,653)**	(8,087)
Interest income on held-to-maturity investments	**(9,386)**	—
Interest income from bank deposits	**(13,930)**	(9,358)
	(110,649)	(11,389)
(b) Other items:		
Reversal of impairment losses on trade and other receivables	**(1,053)**	(3,688)
Depreciation	**54,452**	36,112
Operating lease charges in respect of land use rights and premises		
- minimum lease payments	**6,818**	1,006
- contingent rent	**3,304**	1,745
Loss on disposal of property, plant and equipment	**176**	1,041
Amortisation of lease prepayments	**8,124**	3,302

6. Income tax expense

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Current tax expense	**28,009**	24,195
Deferred tax expense	**32,797**	298
	60,806	24,493

(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 2008 and 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 25% during the six months ended 30 June 2008 (30 June 2007: 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% reduction in the PRC enterprise income tax for the following three years. According to the new PRC tax law and its interpretation rules which are effective from 1 January 2008 ("new PRC tax law"), the tax holiday is deemed to start from 1 January 2008, even if the companies are not yet turning a profit and the unutilised tax holidays can continue until expiry.

(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% 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.

According to the new PRC tax law, State-Level Agricultural Leading Enterprises and their subsidiaries are no longer eligible to full exemption from PRC enterprise income tax. Instead, enterprises engaged in the primary processing of agricultural products will be exempted from PRC enterprise income tax. However, the detailed interpretation rules regarding the preferential tax policies (e.g. details of what operations can be qualified as primary processing of agricultural products under the new tax law) have yet to be made public. Based on certain interpretations issued before the announcement of the new PRC tax law, the management expects that slaughtering operations of the Group may be qualified as primary processing of agricultural products under the new tax law and therefore would be entitled to exemption from PRC enterprise income tax.

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

(d) Under the new PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax treaty between the PRC and Hong Kong, 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. Pursuant to the grandfathering treatments of the new PRC tax law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

In addition, under the new 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%. Since most of the Group's management is currently located in the PRC, the Group may be subject to PRC income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise may be exempted from this tax, but there is no guarantee that the Group will qualify for this exemption.

(e) The Group's consolidated effective tax rate for the six months ended 30 June 2008 is 8.3% (six months ended 30 June 2007: 5.9%). The change in effective tax rate is mainly due to the provision of withholding tax on profits generated by the Group's PRC subsidiaries since 1 January 2008, detailed in note 6(d).

7. Dividends

(a) *Dividends attributable to the interim period*

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Interim dividend proposed after the balance sheet date of HK$0.110 per share (six months ended 30 June 2007: HK$0.070 per share)	**168,363**	101,637

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	
	2008	2007
	HK$'000	*HK$'000*
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period, of HK$0.080 per share (year ended 31 December 2006: HK$0.042 per share)	**122,419**	60,982

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 HK$672,070,000 (six months ended 30 June 2007: HK$393,215,000) and the weighted average number of ordinary shares of 1,528,050,000 (2007: 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 HK$672,070,000 (six months ended 30 June 2007: HK$393,215,000) and the diluted weighted average number of ordinary shares of 1,544,821,000 (2007: 1,456,565,000).

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 2008 *HK$'000*	31 December 2007 *HK$'000*
Within 30 days	**345,447**	382,055
31 days to 90 days	**98,083**	99,959
91 days to 180 days	**16,028**	16,027
Over 180 days	**1,473**	3,315
Total debtors and bills receivable, net of impairment loss	**461,031**	501,356
Value-added tax ("VAT") recoverable	**174,449**	132,013
Deposits, prepayments and other receivables	**64,004**	75,376
	699,484	708,745

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 2008 *HK$'000*	31 December 2007 *HK$'000*
Within 30 days	**255,966**	231,829
31 days to 90 days	**76,352**	51,517
91 days to 180 days	**40,964**	33,964
Over 180 days	**20,525**	13,535
Total creditors and bills payable	**393,807**	330,845
Receipts in advance	**98,717**	118,130
VAT payable	**4,339**	2,112
Other payables and accruals	**284,547**	304,871
	781,410	755,958

11. Subsequent event

On 25 August 2008, the Company obtained a three-year term loan banking facility up to HK$450,000,000 for financing of the capital expenditure and general corporate funding requirements of the Group.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.110 per share for the six months ended 30 June 2008 (for the six months ended 30 June 2007: HK$0.070) which shall be payable on or about 23 September 2008 to shareholders whose names appear on the register of members of the Company on 16 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 10 September 2008 to Tuesday, 16 September 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

In the first half of 2008, there were significant developments in the meat processing and hog slaughtering industry in China that created numerous short-term benefits and long-term opportunities for pork processing companies.

During the period, inflation and surging raw material prices put pressure on domestic manufacturers' cost control as well as impacted consumer consumption. Responding to increasing inflationary pressures, the government of the People's Republic of China ("PRC") prioritised inflation control with emphases on quantity control and price stabilization. Specifically, the National Development and Reform Commission issued "The Implementation Measures for the Practice of Temporary Price-Intervention Measures on Some Important Commodities and Services" in January 2008, to exercise nationwide temporary price control over important products and services. This requires retailers and wholesalers to file price adjustments on pork and pork products.

The shortage of domestic hog supply, which contributed to the increase in domestic hog prices, continued to impact the industry in the first half of 2008. Since the end of last year to the beginning of 2008, the PRC government implemented a series of measures to increase domestic hog supply including the provision of subsidies to pig farmers to encourage the rearing of breeding hogs. The effects of these measures surfaced in the late second quarter of 2008. While the domestic hog supply was relatively tight in the first quarter of 2008, the hog output recovered moderately and the price started to stabilize during the second quarter of 2008. According to the Ministry of Agriculture, the national average domestic hog price was approximately RMB16.1 per kg in the second quarter of 2008, representing a decrease of approximately 3.6% when compared with that of approximately RMB16.7 per kg of the first quarter.

In addition to alleviating the domestic hog shortage, the PRC government further tightened the regulations to support the orderly development of the hog slaughtering industry. The PRC government revised a series of regulations which included the new version of "Administrative Regulations on Live Hog Slaughtering" and "Food Safety Regulations". The new version of "Administrative Regulations on Live Hog Slaughtering" became effective on 1st August, 2008. These regulations are expected to substantially influence the development of the entire industry. It is expected that small-scale slaughtering enterprises with low hygiene standards will be faded out under the stronger government control and increasing industry consolidation. This creates a unique opportunity for large-scale slaughtering enterprises with solid production capacities including the Group to rapidly strengthen its market penetration throughout China.

Business Review

Despite the fact that some industry challenges remained in the first half of 2008, the Group maintained a robust revenue growth by leveraging its core advantages, such as its acclaimed premium "Yurun" brand, dominant position in the mid to high end markets, flexible pricing strategies, and highly experienced management team. Low temperature meat products ("LTMP") and chilled pork continued to be the main contributors to the Group's growth, the sales of which went up significantly compared to the same period last year.

Our well-established brand and sophisticated operating system are key contributors to the stable profit margin of the Group. During the period under review, we strengthened Yurun's premium brand position by expanding the marketing and sales efforts of the products and enhancing our advertising efforts with increased marketing on CCTV and various mobile media. Despite the current environment of tight domestic hog supply and high procurement costs, the Group was able to leverage on its premium brand position to maintain its strong pricing power and procurement capabilities. The Group also benefited from its sophisticated management and operation including strategically established production network across the nation, highly efficient supply chain management system, and the sound and flexible sales and marketing strategies.

Sales and Distribution

The Group continued to enhance overall sales and profitability through several measures which included focusing on the development of higher profit margins products and enriching its product mix. During the period under review, it also enhanced its flagship "Yurun" brand by strengthening the advertising and promotion efforts. As a result, the Group had achieved outstanding sales for its LTMP and chilled pork products amid the competitive environment.

In the first half of 2008, sales of chilled pork were HK$3,728 million, a significant increase of 119.0% over the same period in 2007, representing 56.9% (first half of 2007: 46.2%) of the Group's total turnover before inter-segment elimination. Sales of LTMP was HK$1,273 million, an increase of 65.2% over the same period in 2007, representing 19.4% (first half of 2007: 20.9%) of the Group's total turnover before inter-segment elimination.

With respect to the target markets and distribution channels, the Group followed its existing strategy of relying on direct sales as major channel and distribution as secondary channel. The Group continued to focus on expanding its direct sales to supermarkets and chain stores and improving its distribution network so as to enhance the overall penetration rate. At the same time, the Group further strengthened its cooperation with upscale hotels and catering chains in an effort to further enhance profitability by increasing the sales of high profit margins products.

Production Facilities and Production Capacity

To satisfy the booming market demand for our products, the Group continued to expand its production capacity through selective acquisitions, upgrading its production facilities and construction of new plants.

In the downstream business, the Group focused on increasing market coverage, resolving bottlenecks and upgrading key production facilities. During the period under review, the new plants in Nanjing and Maánshan commenced operations. Annual production capacity of the Group's downstream meat processing business increased by 10,000 tons from the end of 2007 to 228,000 tons by the end of the first half of 2008. Moreover, certain meat processing factories are under construction or renovation and the capacity will be improved significantly after these projects are completed by the end of this year.

The upstream segment's market coverage in the Northeastern region was enhanced with the completion of the Shenyang factory. By the end of the first half of 2008, the Group's annual slaughtering capacity was 14.55 million heads, representing an increase of 500 thousand heads from the end of 2007. The Group continually strives to expand its production capacity actively in the second half of 2008. As at the date of this announcement, the Group already completed three acquisitions located in Heilongjiang province, Gansu province and Hebei province. The Group expects to meet its target upstream production capacity for 2008 once the acquisitions and upgrading projects are completed in the second half of the year.

Financial review

The Group's turnover reached HK$6,043 million in the first half of 2008, an increase of 75.2% over the same period in 2007 of HK$3,450 million. The Group also recorded a net profit of HK$672 million (first half of 2007: HK$393 million), up 70.9% from the corresponding period in 2007. Diluted earnings per share was HK$0.435, representing an increase of 61.1% from HK$0.270 in the same period last year.

Turnover

Processed Meat Products

During the period under review, the turnover of processed meat products reached HK$1,405 million (first half of 2007: HK$881 million), up 59.5% from the corresponding period in 2007. The processed meat products maintained a strong growth momentum despite the challenging market environment as a result of the Group's strong brand position, effective marketing strategies, strong pricing power, continuous optimization of the product mix and launch of new higher end products.

Turnover of LTMP in the first half of 2008 reached HK$1,273 million, an increase of 65.2% from that of the corresponding period in 2007 of HK$771 million. LTMP was again the major revenue driver in the processed meat segment accounting for approximately 90.6% (first half of 2007: 87.5%) of the total turnover from this segment. Turnover of high temperature meat products ("HTMP") was HK$132 million (first half of 2007: HK$110 million), accounting for approximately 9.4% (first half of 2007: 12.5%) of the total turnover from the processed meat segment.

Chilled and Frozen pork

Taking advantage of the Group's strategic nationwide layout, the Group managed to increase its slaughtering volume slightly in the first half of 2008 as compared to the same period last year despite the relatively tight hog supply. Moreover, with the strong brand recognition, the Group was able to implement its market-based pricing strategy and rapidly adjusted the price of chilled pork in response to the increase of live hog prices.

In the first half of 2008, total sales generated from the upstream segment (before inter-segment elimination) reached HK$5,153 million, an increase of 83.6% from the same period in 2007. Total sales generated from chilled pork products was approximately HK$3,728 million, an increase of 119.0% from that in the same period last year, representing 72.4% (first half of 2007: 60.7%) of the turnover from the upstream segment. The turnover of frozen pork products reached HK$1,425 million, an increase of 29.1% from the turnover in the first half of last year, representing 27.6% (first half of 2007 : 39.3%) of the turnover from the upstream segment.

Gross profit and gross profit margin

The Group's gross profit increased by 60.3% from HK$512 million in the first half of 2007 to HK$821 million in the first half of 2008. The Group's gross profit margin decreased slightly by 1.2 percentage points from 14.8% in the first half of 2007 to 13.6% in the first half of 2008. The slight decline in gross margin was mainly due to the increase in percentage of total turnover derived from the upstream segment which traditionally has a relatively lower gross margin than that of the downstream segment.

For the downstream meat processing segment, gross profit margin for LTMP was 27.5%, an increase of 0.5 percentage point compared with that of last year. Gross profit margin for HTMP was 18.5%, an increase of 0.2 percentage point compared with the gross profit margin in the same period last year. Despite the high live hog price during the period, the Group managed to increase the overall gross profit margin for the downstream segment by 0.8 percentage point to 26.7% from 25.9% last year. This was primarily attributed to the Group's timely price adjustment of the LTMP and ability to optimise its product mix. Moreover, the Group's inventory management policies enable it to maintain relatively stable cost of raw materials of LTMP.

For the upstream segment, the gross profit margin of chilled and frozen pork was 9.5% and 6.4% respectively, a slight drop of 2.0 and 1.7 percentage points respectively compared with those of the same period in 2007. The overall gross profit margin was 8.6%, representing 1.5 percentage points lower than the gross margin of 10.1% in the first half of 2007. While the fluctuation of domestic hog prices and temporary pricing lag imposed challenges, the Group made its best efforts to maintain its market-based pricing strategy. The gross profit margin remained relatively stable as a result of its recognized brand name, optimising production scale, ability to rapidly respond to market conditions and strong pricing power.

Other operating income

Other operating income mainly includes government subsidies and negative goodwill. During the period, the Group had other operating income of HK$189 million (first half of 2007: HK$119 million), primarily due to the subsidies of HK$66 million (first half of 2007: HK$59 million) granted by the PRC government to support the Group's business development efforts and negative goodwill as a result of acquisitions amounting to HK$102 million (first half of 2007: HK$50 million).

Operating expenses

Operating expenses include distribution expenses, administrative expenses and other operating expenses. During the period, the operating expenses of the Group were

HK$387 million, an increase of 73.1% from the same period last year of HK$223 million which was largely due to the Group's increased marketing efforts, higher transportation costs due to the surging fuel prices, and increased staffing costs as a result of its business expansion. Operating expenses during the period represented 6.4% of the Group's turnover, a decrease of 0.1 percentage point compared to 6.5% in the same period last year. The decline in operating expenses as a percent of total turnover demonstrates the Group's ability to increase its economies of scale while rapidly expanding its business.

Operating profit

In the first half of 2008, the Group's operating profit was HK$623 million, up 53.0% from that last year of HK$407 million.

Net Financing Income

The Group's net financing income for the first half of 2008 was HK$111 million compared to HK$11 million in the same period of 2007. The significant increase in net financing income is mainly attributable to the exchange gain arising from the translation of assets and liabilities denominated in foreign currency, interests from bank deposits and gain from investments exceeded the financial expenses of the bank loans.

Income Tax

For the six months ended 30 June 2008, the total income tax of the Group was HK$61 million (first half of 2007: HK$24 million). Effective tax rate for the period was 8.3% compared to 5.9% in the previous year. The increase in the effective tax rate arises mainly from the 5% withholding tax required under the new PRC tax law on dividend the Group received from its PRC subsidiaries in respect of its profits earned since 1 January 2008.

Net Profit

Taking all the above factors into account, the Group's net profit for the first half of 2008 increased significantly by 70.9% to HK$672 million from 2007 of HK$393 million. Net profit margin for the period was 11.1% (first half of 2007: 11.4%).

Financial Resources

The Group's major financial resources were cash inflows generated from operating activities. Bank loans and syndicated loan drawn during the period to support the mid and long term growth also contributed significantly to our reserves. Cash inflow from operating activities during the period amounted to HK$356 million, with cash balance of HK$1,687 million as at 30 June 2008, representing an increase of HK$889 million compared with that as at 30 June 2007.

As at 30 June 2008, the Group had HK$1,336 million outstanding loans. The Group continues to employ a prudent financial management policy by maintaining working capital for day to day operating activities and other funding requirements while ensuring it has sufficient capital to make strategic acquisitions and investments in production capacity.

Assets and Liability

As at 30 June 2008, the Group's total assets and total liabilities were HK$7,513 million and HK$2,366 million, respectively, representing an increase of HK$1,135 million and HK$319 million, respectively, from 31 December 2007.

As at 30 June 2008, equity attributable to the equity holders of the Company was HK$4,943 million, an increase of HK$804 million from HK$4,139 million as at 31 December 2007.

As at 30 June 2008, 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 23.6 %, remained stable as compared to 23.5% of 31 December 2007.

Human Resources

As at 30 June 2008, the Group had 15,951 (as at 31 December 2007: 14,328) employees in the PRC and Hong Kong. Total staff expenses for the year were HK$165 million, accounting for 3.0% of the Group's turnover (first half of 2007: HK$114 million, accounting for 3.3% of the Group's turnover).

The Group provides competitive remunerations and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with industry and market practice, the Group provides performance-based bonuses and share option scheme to encourage and reward the employees' contributions to the Group's results and business development. In addition, the Group allocates resources for providing continuing education and training for management and employees to help improve their skills and knowledge.

Outlook

The PRC government has been focusing on strengthening the regulation of the country's meat product processing industry. Moreover, with the implementation of the new version of "Administrative Regulations on Live Hog Slaughtering" on 1 August 2008, the Group expects that it will accelerate the consolidation of the meat product processing industry by closing down many small slaughtering factories which are unable to meet the new hygiene and food safety standards, thus creating new opportunities for leading enterprises, like Yurun Food, to rapidly capture additional market share.

Due to the implementation of certain policies to support the hog raising industry including financial subsidies to farmers for hog breeding in the second half of 2007, we expect the hog supply to increase significantly and for the hog price to trend down in the second half of 2008.

As one of the largest meat processing enterprises in PRC, Yurun Food will strive to implement the following strategies:

- continue its marketing campaign in the mainstream media to further enhance our market position and brand awareness of its flagship "Yurun" brand in order to rapidly increase the market share of its LTMP and chilled meat in the next three to five years,

- expand the Group's upstream and downstream production capacity through acquisitions, green field and brown field projects to meet the rapid growth in market demand for products and to capture the opportunities from the accelerated industry consolidation driven by the government policy and the change of consumption pattern of Chinese consumers,

- continually improve the sales and development of high margins products in order to ensure stable profit margins, and

- continually expand distribution and sales channels to ensure market penetration and expansion.

Yurun Food strives to leverage on its core strategies, premium pork brands, nationwide production facilities, stable and effective supply chain management, extensive sales and distribution network and strong R&D to create maximum value for our shareholders.

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 2008.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding the Directors' securities transactions. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

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 2008.

AUDIT COMMITTEE

The Audit Committee of the Company 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 2008.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 26 August 2008

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 Sun Yanjun; and the independent non-executive directors are Zheng Xueyi, Kang Woon and Gao Hui.

** For identification purposes only*

This announcement is not for circulation in the United States of America.

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