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 2009

Financial Highlights

	For the six months ended 30 June		
	2009	2008	
	HK$ in million	*HK$ in million*	
	(Unaudited)	*(Unaudited)*	Growth
Gross profit	**976**	821	18.9%
Profit attributable to equity holders	**841**	615†	36.9%
Diluted earnings per share *(HK$)*	**0.545**	0.398†	36.9%
Gross profit margin	**16.7%**	13.6%	3.1 percentage points
Net profit margin	**14.4%**	10.2%	4.2 percentage points

- Gross profit and profit attributable to equity holders increased by 18.9% and 36.9% respectively, demonstrating the Group's ability to maintain strong growth momentum against substantial drop in live hog price.
- Diluted earnings per share rose sharply by 36.9% as compared to the same period last year.
- Gross profit margin and net profit margin significantly increased by 3.1 percentage points and 4.2 percentage points respectively.

† *Revised based on 2008 audited financial statements, details of which please refer to note 13 of this announcement.*

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 2009. The interim financial report for the six months ended 30 June 2009 ("Review Period") 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 2009 - unaudited

(Expressed in Hong Kong dollars)

	Note	**Six months ended 30 June** **2009** ***$'000***	2008 *$'000*
Turnover	3	**5,834,036**	6,043,452
Cost of sales		**(4,857,819)**	(5,222,671)
Gross profit		**976,217**	820,781
Other operating income	5	**370,997**	131,655
Distribution expenses		**(241,721)**	(243,496)
Administrative and other operating expenses		**(155,932)**	(143,250)
Results from operating activities		**949,561**	565,690
Finance income		**26,176**	135,969
Finance expenses		**(50,977)**	(25,320)
Net financing (expenses)/income	6(a)	**(24,801)**	110,649
Share of loss of an equity accounted investee (net of income tax)		**(24)**	(498)
Profit before income tax	6	**924,736**	675,841
Income tax expense	7	**(81,969)**	(60,806)
Profit for the period		**842,767**	615,035
Attributable to:			
Equity holders of the Company		**841,250**	614,689
Minority interests		**1,517**	346
Profit for the period		**842,767**	615,035
Earnings per share			
Basic	9(a)	**$0.549**	$ 0.402
Diluted	9(b)	**$0.545**	$ 0.398

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2009	2008
	$'000	*$'000*
Profit for the period	**842,767**	615,035
Other comprehensive income for the period (after tax and reclassification adjustments)		
Foreign currency translation differences for foreign operations	**(263)**	229,650
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	**1,987**	—
	1,724	229,650
Total comprehensive income for the period	**844,491**	844,685
Attributable to:		
Equity holders of the Company	**842,979**	832,046
Minority interests	**1,512**	12,639
Total comprehensive income for the period	**844,491**	844,685

CONSOLIDATED BALANCE SHEET

At 30 June 2009 - unaudited

(Expressed in Hong Kong dollars)

	Note	**30 June 2009** *$'000*	31 December 2008 *$'000*
Non-current assets			
Property, plant and equipment		**3,007,765**	2,608,267
Investment properties		**217,292**	220,831
Lease prepayments		**1,241,728**	1,083,832
Goodwill		**86,252**	86,268
Investment in an equity accounted investee		**2,890**	2,915
Non-current prepayments		**1,583,760**	1,052,535
Deferred tax assets		**9,204**	10,908
		6,148,891	5,065,556
Current assets			
Inventories		**859,078**	703,455
Other investments		**294,113**	1,134
Current portion of lease prepayments		**27,035**	23,074
Trade and other receivables	10	**1,274,398**	703,954
Income tax recoverable		**1,355**	16,546
Pledged deposits		**781,223**	598,525
Time deposits		**13,339**	—
Cash and cash equivalents		**949,225**	1,209,092
		4,199,766	3,255,780
Current liabilities			
Bank loans		**2,021,358**	1,095,049
Finance lease liabilities		**463**	496
Trade and other payables	11	**1,510,719**	902,846
Income tax payable		**12,122**	19,776
		3,544,662	2,018,167
Net current assets		**655,104**	1,237,613
Total assets less current liabilities		**6,803,995**	6,303,169

	Note	30 June 2009 $'000	31 December 2008 $'000
Non-current liabilities			
Bank loans		**539,230**	833,062
Finance lease liabilities		**164,419**	177,967
Deferred tax liabilities		**101,585**	57,045
		805,234	1,068,074
Net assets		**5,998,761**	5,235,095
Equity			
Share capital		**153,586**	153,107
Reserves		**5,823,524**	5,061,849
Total equity attributable to equity holders of the Company		**5,977,110**	5,214,956
Minority interests		**21,651**	20,139
Total equity		**5,998,761**	5,235,095

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 ("IAS") 34, "Interim financial reporting" promulgated by the International Accounting Standards Board ("IASB"). It was authorised for issue on 9 September 2009. The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. Changes in accounting policies

The IASB has issued a new International Financial Reporting Standard ("IFRS"), a number of amendments to IFRSs and new interpretations 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:

– IFRS 8, "Operating segments"

– IAS 1 (revised 2007), "Presentation of financial statements"

– Improvements to IFRSs (2008)

– Amendments to IAS 27, "Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate"

– Amendments to IFRS 7, "Financial instruments: Disclosures - improving disclosures about financial instruments"

– IAS 23 (revised 2007), "Borrowing costs"

– Amendments to IFRS 2, "Share-based payment - vesting conditions and cancellations"

The adoption of improvements to IFRSs (2008) and the amendments to IFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments is as follows:

– IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters and is more consistent with internal reporting provided to the Group's most senior executive management. As the Group's internal reporting to the Group's chief operating decision maker is disaggregated into segments based on products, the adoption of IFRS 8 has had no material impact on the general presentation of segment information.

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- IAS 23 (revised 2007) requires that, effective from 1 January 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and has eliminated the option of immediate recognition of such borrowing costs as an expense. Previously, the Group immediately recognised all borrowing costs as an expense. In accordance with the transitional provisions in the standard, the Group will apply the new standard prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on and after the effective date. The change in accounting policy had no material impact on assets, profit or earnings per share in the interim period ended 30 June 2009.

3. Turnover and segment information

The Group manages its businesses by divisions, which are organised by different product lines. On first-time adoption of IFRS 8, "Operating segments" and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, 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.

Revenue from external customers represents the 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.

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 period is set out below.

	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	For the six months ended 30 June							
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**4,207,680**	4,638,232	**1,626,356**	1,405,220	**—**	—	**5,834,036**	6,043,452
Inter-segment revenue	**580,866**	514,545	**—**	—	**(580,866)**	(514,545)	**—**	—
Reportable segment revenue	**4,788,546**	5,152,777	**1,626,356**	1,405,220	**(580,866)**	(514,545)	**5,834,036**	6,043,452
Reportable segment profit	**700,685**	410,918	**266,492**	169,896	**—**	—	**967,177**	580,814
Unallocated income and expenses							**(124,410)**	34,221
Profit for the period							**842,767**	615,035
	30 June 2009	31 December 2008	**30 June 2009**	31 December 2008	**30 June 2009**	31 December 2008	**30 June 2009**	31 December 2008
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Reportable segment assets	**6,352,112**	4,765,580	**1,949,303**	1,735,812	**—**	—	**8,301,415**	6,501,392
Deferred tax assets							**9,204**	10,908
Unallocated head office and corporate assets							**2,038,038**	1,809,036
Consolidated total assets							**10,348,657**	8,321,336

4. **Business combinations**

Tenger (Henan) Livestock Technology Company Limited* ("Tenger")

On 8 January 2009, the Group entered into an asset transfer agreement to acquire the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Tenger from Henan Province Fugou Local County Government (河南省扶溝縣人民政府) at a cash consideration of $11,000. In order to support regional economic development, the government rendered a bargain to the Group on acquisition which resulted in a negative goodwill of $119,270,000.

Tengzhou Dongqi Meat Processing Factory* ("Tengzhou Dongqi ")

On 10 February 2009, the Group entered into a share transfer agreement to acquire the entire equity interest of Tengzhou Dongqi at a cash consideration of $181,904,000.

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 $11,000. For the six months ended 30 June 2008, the fair values to be assigned to the identifiable assets and liabilities could only be determined provisionally. Adjustments to reduce the provisional values of the acquired identifiable assets and liabilities totalling $57,381,000 were made on a retrospective basis from the acquisition date. Negative goodwill recognised during the period ended 30 June 2008 was also adjusted downward by an amount equal to the adjustment to the fair values.

5. Other operating income

	Six months ended 30 June	
	2009	2008
	$'000	*$'000*
Government subsidies	**229,543**	66,029
Recognition of negative goodwill arising on business combinations (note 4)	**119,270**	44,606
Rental income	**11,070**	8,956
Sales of scrap	**1,609**	1,584
Others	**9,505**	10,480
	370,997	131,655

6. Profit before income tax

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

	Six months ended 30 June	
	2009	2008
	$'000	*$'000*
(a) Net financing expenses/(income):		
Interest on bank and other loans wholly repayable within five years	**45,399**	21,455
Less: interest expense capitalised into properties under development	**(4,838)**	—
	40,561	21,455
Bank charges	**2,606**	516
Interest on lease obligation	**3,040**	3,349
Net foreign exchange gain	**(2,935)**	(112,653)
Interest income on held-to-maturity investments	**(2,588)**	(9,386)
Interest income from bank deposits	**(20,653)**	(13,930)
Impairment loss on available-for-sale financial assets	**1,932**	—
Change of fair value in financial derivatives	**2,838**	—
	24,801	(110,649)

(b) Other items:

	Six months ended 30 June	
	2009	2008
	$'000	*$'000*
Impairment losses/(reversal of impairment losses) on trade and other receivables	**1,765**	(1,053)
Amortisation of lease prepayments	**11,898**	8,124
Depreciation	**69,085**	54,452
Operating lease charges in respect of land use rights and premises		
- minimum lease payments	**7,473**	6,818
- contingent rent	**2,659**	3,304
Loss on disposal of property, plant and equipment	**1,852**	176

7. Income tax expense

	Six months ended 30 June	
	2009	2008
	$'000	*$'000*
Current tax expense	**35,726**	28,009
Deferred tax expense	**46,243**	32,797
	81,969	60,806

(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 2009 and 2008.

(c) Pursuant to the income tax rules and regulations of the People's Republic of China ("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 2009 (30 June 2008: 25%), 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. 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) 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 six months ended 30 June 2009 and 2008.

(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% for the remaining years through 2010.

(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.

(f) The Group's consolidated effective tax rate for the six months ended 30 June 2009 is 8.9% (six months ended 30 June 2008: 9.0%).

8. Dividends

(a) Dividends payable to equity holders attributable to the interim period

	Six months ended 30 June	
	2009	2008
	$'000	*$'000*
Interim dividend proposed after the balance sheet date of $0.150 per share (six months ended 30 June 2008: $0.110 per share)	**230,379**	168,363

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

(b) Dividends payable to equity holders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2009	2008
	$'000	*$'000*
Final dividend in respect of the financial year ended 31 December 2008, approved during the following interim period, of $0.080 per share (year ended 31 December 2007: $0.080 per share)	**122,780**	122,419

9. 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 $841,250,000 (six months ended 30 June 2008: $614,689,000) and the weighted average number of ordinary shares of 1,531,955,000 (2008: 1,528,050,000).

(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 $841,250,000 (six months ended 30 June 2008: $614,689,000) and the diluted weighted average number of ordinary shares of 1,542,164,000 (2008: 1,544,821,000) after adjusting the effect of deemed issue of shares under the Company's share option scheme.

10. Trade and other receivables

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

	30 June 2009	31 December 2008
	$'000	*$'000*
Within 30 days	**270,306**	293,330
31 days to 90 days	**130,906**	136,415
91 days to 180 days	**20,348**	14,195
Over 180 days	**1,883**	1,225
Total trade debtors, net of impairment loss	**423,443**	445,165
Bills receivable	**498,437**	—
Value-added tax ("VAT") recoverable	**251,727**	202,658
Deposits, prepayments and other receivables	**100,791**	56,131
	1,274,398	703,954

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

11. Trade and other payables

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

	30 June 2009 *$'000*	31 December 2008 *$'000*
Within 30 days	**337,238**	379,923
31 days to 90 days	**41,023**	62,698
91 days to 180 days	**32,166**	28,613
Over 180 days	**13,762**	13,835
Total trade creditors	**424,189**	485,069
Bills payable	**497,870**	—
Receipts in advance	**98,712**	95,724
VAT payable	**1,632**	4,343
Amounts due to related companies	**3,744**	3,942
Dividends payable	**122,780**	—
Derivative financial instruments	**2,837**	—
Other payables and accruals	**358,955**	313,768
	1,510,719	902,846

12. Subsequent event

On 28 July 2009, the Company raised $1,675,028,000 (net of expenses) by way of placing 130,000,000 new ordinary shares of the Company at a price of $13.23 per share.

13. Comparative figures

As a result of the application of IAS 1 (revised 2007), "Presentation of financial statements" and IFRS 8, "Operating segments", certain comparative figures have been adjusted to conform to the current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

During the year ended 31 December 2008, the initial accounting for the acquisitions of Keshan and Changchun Food Group Company ("Changchun") was determined provisionally. As required by IFRS 3, "Business combinations", comparative figures have been adjusted to recognise the adjustments to those provisional values as a result of completing the initial accounting as if the initial accounting had been completed on the respective acquisition dates. Certain assets items of Changchun as at 31 December 2008 have been reclassified as a result of completing the initial accounting. Further details on the acquisition of Keshan are disclosed in note 4.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.150 per share for the six months ended 30 June 2009 (for the six months ended 30 June 2008: HK$0.110) which shall be payable on or about 28 October 2009 to shareholders whose names appear on the Register of Members of the Company (the "Register of Members") on 16 October 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 14 October 2009 to Friday, 16 October 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers 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, 13 October 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The economic environment was still full of challenges in the first half of 2009. The adverse impact of the financial tsunami remained and the global economy faced threat of recession. However, as a consumer goods industry, meat processing industry maintained stable growth amid the economic downturn. In addition, the Chinese economy gradually recovered as a result of the RMB4 trillion economic stimulus plan implemented by the Central Government. It was expected that the overall economic performance would improve in the second half of 2009. In view of the promising economic prospects, Yurun Food, a leading player in the meat products industry, is full of confidence that its business will achieve steady growth in future.

During the Review Period, the global outbreak of H1N1 influenza initially raised public concerns over consumption of pork products. The market, however, promptly regained confidence after clarification by the World Health Organization that pork consumption would not transmit the disease. It has always been the policy of Yurun Food to adopt stringent quality control. We had closely monitored the development of the disease and had ensured that we could deliver products of the highest quality to our consumers. Therefore, Yurun Food's business operations were not affected by the H1N1 influenza pandemic during the Review Period, and hog slaughtering volume increased significantly as compared to the same period last year.

Live hog price continuously fell for the first half of the year. In June 2009, the Chinese government increased nationwide frozen pork reserves up to 120,000 tons in accordance with the "Contingency Plan on Preventing Excessive Drop in Hog Price" so as to protect the interests of hog breeders, to prevent rapid drop in hog price, to increase breeders' incentives to raise livestock and to strengthen hog supply in future.

During the Review Period, the Chinese government continued to promote systematic development of hog slaughtering industry by implementing a series of laws and regulations, such as the "Administrative Provision for Live Pig Slaughtering" and "Food Safety Law". Large-scale slaughtering enterprises with high hygienic standards were awarded with certification while those unqualified small-scale slaughtering enterprises were forced out with a view to enhancing the overall hygienic and safety standards of the industry and accelerating the industry consolidation.

Business Review

In the first half of 2009, the Group maintained stable business growth despite market volatility and temporarily setback caused by the H1N1 influenza outbreak. Low temperature meat products ("LTMP") and chilled pork products which had higher margin continued to be the key drivers to the steady growth of profits of the Group amid the challenging economic environment.

In addition, benefiting from the proactive expansion of slaughtering capacity and the improvement in nation-wide production network in recent years, the Group was able to further achieve economies of scale in production. With its flexible and scientific inventory management, the Group significantly grew its overall gross margin despite volatile hog prices in the first half of the year.

Product Quality and R&D

Product quality has always been the priority of Yurun Food. We implemented stringent internal quality control over every production process from procurement, production, sales to logistics. In particular, the Group closely monitored the hog quality. We selected the finest hog species and carried out detailed inspections to ensure that the required hygienic standards were complied with. Leveraging on its stringent quality control, Yurun Food successfully established an image of superior safety and quality among consumers, maintained its competitive advantages in the market and further strengthened its market leadership position.

In addition, the Group focused on research and development of mid-to-high end products. The R&D team of the Group included over 300 members. In the first half of 2009, the team continued to develop competitive products and made the Group the leader in food consumption trends. Given the increasing urban population of middle class in China, the demand for high quality meat products increased. Therefore, the total sales of the upstream and downstream businesses of the Group rose significantly by 106,000 tons to 439,000 tons during the Review Period as compared to the corresponding period last year.

Sales and Distribution

In order to maintain stable sales and profitability, the Group continued to focus on developing products with high profit margins and enriching its product mix. In the first half of 2009, the turnover of chilled pork reached HK$3.926 billion, representing an increase of 5.3% over the corresponding period last year, accounting for 61.2% of the total turnover prior to inter-segment elimination (1H2008: 56.9%), and 82.0% of the total turnover of the upstream business segment (1H2008: 72.4%). The turnover of LTMP was HK$1.536 billion, representing an increase of 20.6% over the corresponding period last year, accounting for 23.9% of the total turnover prior to inter-segment elimination (1H2008: 19.4%), and 94.5% of the total turnover of the downstream business segment (1H2008: 90.6%).

Production Facilities and Production Capacity

To tap the growing market demand for Yurun's products, the Group continued to increase its production capacity through selective acquisitions, greenfield and upgrading projects.

The Group strived to expand its downstream meat processing business during the past few years. As at the end of the first half of 2009, its production capacity reached 258,000 tons, same as that as at the end of last year. The Group will continue the expansion in the second half or next year. Increasing market coverage, reducing bottlenecks and upgrading key production facilities would be the main focus.

With respect to its upstream slaughtering segment, the Group was well prepared for increasing production capacity by acquiring several production plants of which one had already commenced trial production in May 2009 and others would follow in the second half or next year. As at the end of the first half of 2009, the slaughtering capacity of the Group was 19.3 million heads per year, representing an increase of 1.25 million heads as compared to that as at the end of 2008.

Financial Review

The Group recorded a turnover of HK$5.834 billion for the first half of 2009, representing a decrease of 3.5% from HK$6.043 billion of the same period last year. The prices of upstream chilled pork and frozen pork were determined according to market prices of live hogs. In the face of significant price decrease in live hog, the Group was able to increase its sales volume by 35.1% which has, to a large extent, offset the adverse impact of market price fluctuations. More importantly, the Group was successful in enhancing gross margin significantly, controlling cost effectively and maintaining strong growth in net profit. During the Review Period, the Group recorded a net profit of HK$841 million (1H2008: HK$615 million), up 36.9% from that of the same period last year. Diluted earnings per share was HK$0.545, representing a surge of 36.9% from HK$0.398 of the same period last year.

Turnover

Processed Meat Products

As at the end of the first half of 2009, the Group offered more than 1,200 types of processed meat products. During the Review Period, the sales of processed meat products reached HK$1.626 billion (1H2008: HK$1.405 billion), up 15.7% from that of the same period last year. Despite the competitive environment, the Group achieved satisfactory growth on the back of its strong brand recognition, marketing promotion, improved product mix and new products with higher profit margins.

The turnover of LTMP was HK$1.536 billion for the first half of 2009, representing an increase of 20.6% from HK$1.273 billion of the corresponding period last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 94.5% (1H2008 : 90.6%) of the processed meat segment. The turnover of high temperature meat products ("HTMP") was HK$90 million (1H2008:HK$132 million), accounting for approximately 5.5% (1H2008:9.4%) of the total turnover of the processed meat segment.

Chilled and Frozen pork

Our successful strategic planning grew the slaughtering volume by 35.6% against the same period last year. The Group continued to expand market share and maintained strong competitive advantages and leading position in the industry. Moreover, with the prudent live hog procurement and flexible inventory management, the Group managed to achieve a significant increase in the gross margin of upstream business despite substantial fluctuation in live hog prices.

In the first half of 2009, the total sales generated from the upstream business (before inter-segment elimination) decreased by 7.1% to HK$4,789 billion of the same period last year. Sales of chilled pork increased 5.3% to HK$3.926 billion, accounting for approximately 82.0% of the total turnover of the upstream business (1H2008: 72.4%). Sales of frozen pork decreased by 39.4% to HK$863 million, accounting for approximately 18.0% of the total turnover (1H2008: 27.6%) of the upstream business. The decrease in sales was due to the selling price adjustment resulting from the drop in hog price and the Group's defined strategy of lowering the proportion of frozen pork in the upstream slaughtering business.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 18.9% from HK$821 million in the first half of 2008 to HK$976 million in the first half of 2009. The gross profit margin of the Group increased by 3.1 percentage points from 13.6% to 16.7%. The increase in gross margin was mainly due to the increase in the proportion of sales of high margin LTMP and chilled meat products.

With respect to the downstream products, the gross profit margin of LTMP was 28.4%, representing an increase of 0.9 percentage point from 27.5% in the same period last year. Gross profit margin of HTMP was 20.5%, representing an increase of 2.0 percentage points as compared to the corresponding period last year. Overall gross profit margin of the downstream segment was 28.0%, an increase of 1.3 percentage points from 26.7% in the same period last year. The increase was mainly attributable to the decline in procurement cost of live hog and to brand recognition and improved product mix, enabling the Group to increase sales of products with high margin and enhance gross margin.

With respect to the upstream business, the gross profit margin of chilled and frozen pork was 11.9% and 6.5% respectively (1H2008: 9.5% and 6.4% respectively). The overall gross profit margin was 10.9%, representing an increase of 2.3 percentage points from 8.6% in the first half of 2008. The increase in gross profit margin was mainly attributable to the proactive expansion in production capacity of the Group in recent years, which enabled the Group to achieve economies of scale against the backdrop of abundant hog supply during the Review Period. Such increase was also due to the strong brand recognition of Yurun and successful marketing strategies which further fuelled the market demand for chilled pork products.

Other Operating Income

Other operating income mainly included government subsidies and negative goodwill. During the Review Period, other operating income of the Group was HK$371 million (1H2008: HK$132 million), comprising subsidies of HK$230 million (1H2008: HK$66 million) granted by the Chinese government as incentives for business expansion and negative goodwill of HK$119 million (1H2008: HK$45 million) arising on acquisitions.

Operating Expenses

Operating expenses included distribution expenses, administrative expenses and other operating expenses. During the Review Period, the operating expenses of the Group were HK$398 million, representing an increase of 2.8% from HK$387 million in the same period last year. Operating expenses during the Review Period represented 6.8% of the turnover of the Group, a slight increase of 0.4 percentage points as compared to 6.4% in the same period last year, demonstrating that the Group was able to control cost effectively amid rapid expansion during economic downturn.

Operating Profit

In the first half of 2009, the operating profit of the Group was HK$950 million, up 67.9% from HK$566 million in the same period last year.

Net Finance Expenses

The net finance expenses of the Group for the first half of 2009 were HK$24.8 million while the Group recorded a net finance income of HK$111 million in the first half of 2008. The exchange gains of HK$113 million recorded last year was a one-off gain, which was mainly arising from the translation of debts denominated in foreign currency as a result of appreciation of Renminbi.

Income Tax

The income tax expenses for the six months ended 30 June 2009 were HK$82 million, a slight increase from HK$61 million of the same period last year. The effective tax rate was 8.9% for the current period, a slight decrease from 9.0% of the same period last year.

Net Profit

Taking into account of all the above factors, the net profit of the Group soared 36.9% from HK$615 million in the first half of 2008 to HK$841 million in the first half of 2009. Net profit margin for the Review Period was 14.4%, representing an increase of 4.2 percentage points from 10.2% in the same period last year.

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities and bank loans. Cash inflow from operating activities in the first half of 2009 amounted to HK$644 million, which, combining a cash balance and pledged deposits of bank loan of HK$1.744 billion as at 30 June 2009, was of similar level as that of 31 December 2008.

As at 30 June 2009, the Group had outstanding loans of HK$2.561 billion, representing an increase of HK$633 million from HK$1.928 billion as at 31 December 2008. Bank loans were used for strategic acquisitions and investments in production facilities during the Review Period. The Group, however, maintained prudent financial management and retained sufficient working capital for day to day operating activities and other funding requirements.

Assets and Liabilities

As at 30 June 2009, the total assets and total liabilities of the Group were HK$10.349 billion and HK$4.350 billion respectively, representing an increase of HK$2.027 billion and HK$1.264 billion as compared to total assets and total liabilities as at 31 December 2008, respectively.

As at 30 June 2009, the equity attributable to equity holders of the Company was HK$5.977 billion, representing an increase of HK$762 million from HK$5.215 billion as at 31 December 2008.

As at 30 June 2009, the gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the total equity) of the Group was 45.4%, an increase from 40.2% as at 31 December 2008. The net gearing ratio excluding the cash balance, time deposits and pledged deposits of bank loan was 16.4%.

Charges on Assets

As at 30 June 2009, certain properties and lease prepayments of the Group with a carrying amount of HK$45.00 million and HK$31.62 million respectively (31 December 2008: HK$45.72 million and HK$31.97 million respectively) were pledged against certain bank loans totalling HK$90.73 million (31 December 2008: HK$90.74 million). Bank loan facilities of the Group totalling HK$1.496 billion (31 December 2008: HK$1.848 billion), were secured by pledged deposits of HK$781 million (31 December 2008: HK$599 million).

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Save for those disclosed in this announcement, there were no significant investments held, nor material acquisitions and disposals of subsidiaries during the Review Period. There is no plan for material investments or capital assets as at the date of this announcement.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group is exposed to currency risk on borrowings that are denominated in United States Dollars, whilst substantially all the revenue-generating operations of the Group are transacted in Renminbi, the functional currency of the operating subsidiaries in the PRC, which is not freely convertible into foreign currencies. The Group actively monitors foreign exchange rate fluctuations to ensure that its net exposure is kept to an acceptable level. The Group has entered into forward contract in order to reduce the Group's exposure to foreign currency risk but the extent of which was minimal.

Significant Subsequent Events

The Group issued 130 million new shares at a price of HK$13.23 per share in late July 2009. The net proceeds was HK$1.675 billion and will be used for capacity expansion to capture business opportunities arising from sufficient hog supply and to cater for market demand. The Group's net debt/total equity ratio will be improved significantly and net cash position will be restored upon completion of the issue.

Human Resources

As at 30 June 2009, the Group had 14,608 (31 December 2008: 17,385) employees in the PRC and Hong Kong. During the Review Period, total staff cost was HK$0.209 billion, accounting for 3.6% of the turnover of the Group.

The Group offered 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 also offered performance-linked bonus and a share option scheme to encourage and reward the employees. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

Outlook

The first half of 2009 was very challenging to the pork industry due to the H1N1 influenza outbreak and fluctuation in hog price. Hog price in China, however, had re-bound gradually since June 2009 after efforts of the Chinese government to increase frozen pork reserves. Farmers and breeders were motivated and encouraged to increase livestock, creating a strong foundation for domestic hog supply in future. It is expected that market demand for mid-to-high end meat products will increase due to the fact that the Chinese economy continues to recover and urban population increases and that purchasing habit of middle class shifts from traditional markets to modern supermarkets for quality meat products. Since the overall economic outlook is promising for the second half of 2009, it is expected that with a continued abundant supply of hogs, the Group is well positioned to expand the business operations steadily.

Meanwhile, as the market expects that hog price has reached bottom and will rebound in the second half of 2009, the Group plans to expand its production capacity to capture business opportunities and the increasing hog price. It is expected that slaughtering volume will reach 30 million heads in 2010. Besides, the Group will strive to capture business opportunities arising from industry consolidation and strengthen its upstream and downstream businesses through mergers and acquisitions as and when appropriate. Since there is increasing concerns over food safety and H1N1 influenza, the Group will closely monitor the development of the disease and ensure the product quality by maintaining stringent quality control.

Looking forward, the Group will strive to capture business opportunities in the market, continue to enhance its brand competitiveness, expand market share and further its business development with its strong brand recognition, corporate image, strategic sales and distribution channels, successful capacity expansion plan, brilliant management team and strong government support.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2009.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to 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 complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009, except for the issue of 4,797,000 shares of the Company under the share option scheme.

In late July 2009, 130,000,000 shares in the Company were placed to investors, details of which are set out in the Company's announcement dated 24 July 2009.

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 unaudited interim results for the six months ended 30 June 2009.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 9 September 2009

As at the date of this announcement, the executive Directors are Zhu Yicai, Zhu Yiliang, Feng Kuande, 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*