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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 2010

Financial Highlights	For the six months ended 30 June		Growth
	2010	2009	
	HK\$ in million (Unaudited)	HK\$ in million (Unaudited)	
Turnover	8,693	5,834	49.0%
Gross profit	1,345	976	37.8%
Profit attributable to equity holders	1,309	841	55.7%
Basic earnings per share (HK\$)	0.762	0.549	38.8%
Gross profit margin	15.5%	16.7%	Decreased by 1.2 percentage points
Net profit margin	15.1%	14.4%	0.7 percentage points
• Turnover for the period recorded a significant increase of 49.0%. Gross profit and profit attributable to equity holders increased by 37.8% and 55.7% respectively, demonstrating the Group's ability to maintain strong growth momentum against substantial drop in live hog price. • Basic earnings per share rose by 38.8% as compared to the same period last year. • Gross profit margin decreased by 1.2 percentage points which was primarily due to the increase in the proportion of upstream business. • Net profit margin increased by 0.7 percentage point, reflecting the Group's success in cost control and increasing profitability.			

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 2010. The interim financial report for the six months ended 30 June 2010 ("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 2010 - unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	<i>Note</i>	2010	2009
		\$'000	\$'000
Turnover	3	8,693,312	5,834,036
Cost of sales		<u>(7,348,164)</u>	<u>(4,857,819)</u>
Gross profit		1,345,148	976,217
Other operating income	5	633,506	370,997
Distribution expenses		(300,170)	(241,721)
Administrative and other operating expenses		<u>(227,131)</u>	<u>(155,932)</u>
Results from operating activities		<u>1,451,353</u>	<u>949,561</u>
Finance income		20,318	26,176
Finance expenses		<u>(73,617)</u>	<u>(50,977)</u>
Net financing expenses	6(a)	<u>(53,299)</u>	<u>(24,801)</u>
Share of loss of an associate (net of income tax)		<u>(121)</u>	<u>(24)</u>
Profit before income tax	6	1,397,933	924,736
Income tax expense	7	<u>(85,888)</u>	<u>(81,969)</u>
Profit for the period		<u>1,312,045</u>	<u>842,767</u>
Attributable to:			
Equity holders of the Company		1,309,437	841,250
Non-controlling interests		<u>2,608</u>	<u>1,517</u>
Profit for the period		<u>1,312,045</u>	<u>842,767</u>
Earnings per share			
Basic	9(a)	<u>\$0.762</u>	<u>\$0.549</u>
Diluted	9(b)	<u>\$0.743</u>	<u>\$0.545</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2010	2009
	\$'000	\$'000
Profit for the period	1,312,045	842,767
Other comprehensive income for the period (after reclassification adjustments)		
Foreign currency translation differences for foreign operations	105,943	(263)
Available-for-sale financial assets: net movement in fair value reserve	(55)	1,987
	105,888	1,724
Total comprehensive income for the period	1,417,933	844,491
Attributable to:		
Equity holders of the Company	1,414,893	842,979
Non-controlling interests	3,040	1,512
Total comprehensive income for the period	1,417,933	844,491

CONSOLIDATED BALANCE SHEET**At 30 June 2010 - unaudited***(Expressed in Hong Kong dollars)*

	<i>Note</i>	30 June 2010 \$'000	31 December 2009 \$'000
Non-current assets			
Property, plant and equipment		5,840,381	5,065,383
Investment properties		213,231	214,093
Lease prepayments		1,876,450	1,407,155
Goodwill		87,458	86,374
Investment in an associate		2,719	2,805
Non-current prepayments		846,802	936,738
Deferred tax assets		20,155	21,025
		8,887,196	7,733,573
Current assets			
Inventories		1,291,677	936,129
Other investments		1,150	6,870
Current portion of lease prepayments		40,922	30,722
Trade and other receivables	10	1,190,437	926,567
Income tax recoverable		958	378
Pledged deposits		606,321	758,759
Time deposits		31,624	76,817
Cash and cash equivalents		4,868,593	2,465,128
		8,031,682	5,201,370
Current liabilities			
Bank loans		3,676,362	3,108,093
Finance lease liabilities		490	474
Trade and other payables	11	1,205,766	1,084,750
Income tax payable		18,881	19,315
		4,901,499	4,212,632
Net current assets		3,130,183	988,738
Total assets less current liabilities		12,017,379	8,722,311

	<i>Note</i>	30 June 2010 \$'000	31 December 2009 \$'000
Non-current liabilities			
Bank loans		24,667	24,361
Finance lease liabilities		166,227	164,414
Deferred tax liabilities		150,887	133,357
		341,781	322,132
		<u>341,781</u>	<u>322,132</u>
Net assets		11,675,598	8,400,179
		<u>11,675,598</u>	<u>8,400,179</u>
Equity			
Share capital		176,329	167,322
Reserves		11,460,687	8,202,380
		<u>11,460,687</u>	<u>8,202,380</u>
Total equity attributable to equity holders of the Company		11,637,016	8,369,702
		<u>11,637,016</u>	<u>8,369,702</u>
Non-controlling interests		38,582	30,477
		<u>38,582</u>	<u>30,477</u>
Total equity		11,675,598	8,400,179
		<u>11,675,598</u>	<u>8,400,179</u>

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 24 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. Changes in accounting policies

Except as described below, the accounting policies applied by the Group in this interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

(a) *Accounting for business combinations*

From 1 January 2010, the Group has applied IFRS 3 (revised 2008), “Business combinations” in accounting for business combinations. The change in accounting policy has been applied prospectively.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquiree’s awards) and relate to past services, then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree’s awards and the extent to which the replacement awards relate to past and/or future service.

(b) *Accounting for the acquisitions of non-controlling interests*

From 1 January 2010, the Group has applied IAS 27, “Consolidated and separate financial statements” in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively; there was no impact on earnings per share in the current period.

From 1 January 2010, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised. Previously, goodwill arising on the acquisition of non-controlling interests in a subsidiary has been recognised, and represented the excess of the cost of additional investment over the carrying amount of the interest in the net assets acquired at the date of transaction.

(c) *Distributions of non-cash assets to owners*

From 1 January 2010, the Group has applied IFRIC 17, “Distributions of non-cash assets to owners” in accounting for distributions of non-cash assets to owners. This new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets to owners at the fair value of the assets to be distributed. The carrying amount of the liability is remeasured at each reporting period and at the settlement date with any changes recognised in equity as adjustments to the amount of the distribution.

On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

(d) *Accounting for operating segments*

As a result of the amendment to IFRS 8, “Operating segments”, arising from the “Improvements to IFRSs (2009)” omnibus standard, the measure of total assets for each reportable segment is only required to be presented if it is regularly provided to the Group’s chief operating decision maker. Segment assets of the Group are not reported to the Group’s chief operating decision maker regularly. As a result, reportable segment assets have not been presented in this interim financial report.

3. Turnover and segment information

(a) Segment results

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

	For the six months ended 30 June							
	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue from external customers	6,830,625	4,207,680	1,862,687	1,626,356	—	—	8,693,312	5,834,036
Inter-segment revenue	689,101	580,866	—	—	(689,101)	(580,866)	—	—
Reportable segment revenue	<u>7,519,726</u>	<u>4,788,546</u>	<u>1,862,687</u>	<u>1,626,356</u>	<u>(689,101)</u>	<u>(580,866)</u>	<u>8,693,312</u>	<u>5,834,036</u>
Reportable segment profit	<u>1,146,706</u>	<u>700,912</u>	<u>319,949</u>	<u>266,492</u>	<u>(1,188)</u>	<u>(227)</u>	<u>1,465,467</u>	<u>967,177</u>
Depreciation and amortisation for the period	103,324	47,768	33,454	33,098			136,778	80,866
Unallocated depreciation and amortisation for the period							291	117
							<u>137,069</u>	<u>80,983</u>

(b) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Profit		
Reportable segment profit	1,466,655	967,404
Elimination of inter-segment profits	<u>(1,188)</u>	<u>(227)</u>
Reportable segment profit derived from Group's external customers	1,465,467	967,177
Share of loss of an associate	(121)	(24)
Net financing expenses	(53,299)	(24,801)
Income tax expense	(85,888)	(81,969)
Unallocated head office and corporate expenses	<u>(14,114)</u>	<u>(17,616)</u>
Consolidated profit for the period	<u>1,312,045</u>	<u>842,767</u>

4. Business combinations

*Shandong Lushen Food Company Limited** (“Shandong Lushen”)

On 24 March 2010, 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 Shandong Lushen from Shandong Province Juye Local County Government (山東省巨野縣人民政府), at a cash consideration of \$9,136,000. Details of Shandong Lushen are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 30 June 2010 \$'000	Principal activities
Shandong Lushen 山東魯神食品有限公司	<u>39,732</u>	Slaughtering, production and sales of chilled and frozen meat

* 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 \$'000	Fair value adjustments \$'000	Pre-acquisition carrying amounts \$'000
Property, plant and equipment	46,570	36,204	10,366
Other non-current assets	2,270	2,270	—
Current assets	<u>28</u>	<u>28</u>	<u>—</u>
Net identifiable assets acquired	48,868	<u>38,502</u>	<u>10,366</u>
Less: Consideration	<u>(9,136)</u>		
Negative goodwill arising on acquisition	<u>39,732</u>		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2010. Shandong Lushen had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill.

Henan Fuxin Muslim Meat Industry Company Limited* (“Henan Fuxin”)

On 14 May 2010, the Group entered into a share transfer agreement with an individual through the Henan Province Nanle Local County Government (河南省南樂縣人民政府) to acquire the entire equity interest of Henan Fuxin at a cash consideration of \$11,000. Details of Henan Fuxin are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition	Principal activities
	to 30 June 2010 \$'000	
Henan Fuxin 河南福鑫清真肉業有限公司	<u>93,557</u>	Slaughtering, production and sales of chilled and frozen meat

* 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 \$'000	Fair value adjustments \$'000	Pre- acquisition carrying amounts \$'000
Property, plant and equipment	88,296	46,288	42,008
Other non-current assets	5,051	5,051	—
Current assets	<u>221</u>	<u>221</u>	<u>—</u>
Net identifiable assets acquired	93,568	<u>51,560</u>	<u>42,008</u>
Less: Consideration	<u>(11)</u>		
Negative goodwill arising on acquisition	<u>93,557</u>		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2010. Henan Fuxin had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill.

5. Other operating income

	Six months ended 30 June	
	2010	2009
	\$'000	\$'000
Government subsidies	460,851	229,543
Recognition of negative goodwill arising on business combinations (Note 4)	133,289	119,270
Rental income	15,884	11,070
Sales of scrap	1,993	1,609
Others	<u>21,489</u>	<u>9,505</u>
	<u>633,506</u>	<u>370,997</u>

During the six months ended 30 June 2010, the Group was entitled to unconditional government subsidies of \$460,851,000 (six months ended 30 June 2009: \$229,543,000). These government subsidies were recognised as other operating income when they became receivable.

6. Profit before income tax

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

	Six months ended 30 June	
	2010	2009
	\$'000	\$'000
(a) Net financing expenses		
Interest on bank and other loans wholly repayable within five years	73,151	45,399
Interest on lease obligation	3,055	3,040
Less: Interest expense capitalised into properties under development	<u>(4,584)</u>	<u>(4,838)</u>
	71,622	43,601
Bank charges	1,995	2,606
Net foreign exchange gain	(4,819)	(2,935)
Interest income on held-to-maturity investments	—	(2,588)
Interest income from bank deposits	(12,967)	(20,653)
Net gain on sales of available-for-sale financial assets	(115)	—
Impairment loss on available-for-sale financial assets	—	1,932
Change of fair value in financial derivatives	<u>(2,417)</u>	<u>2,838</u>
	<u>53,299</u>	<u>24,801</u>

	Six months ended 30 June	
	2010	2009
	\$'000	\$'000
(b) Other items:		
(Reversal of impairment losses)/impairment losses on		
trade and other receivables	(4,679)	1,765
Amortisation of lease prepayments	17,262	11,898
Depreciation	119,807	69,085
Operating lease charges in respect of land use rights		
and premises		
- minimum lease payments	8,494	7,473
- contingent rent	3,410	2,659
Loss on disposal of property, plant and equipment	<u>1,467</u>	<u>1,852</u>

7. Income tax expense

	Six months ended 30 June	
	2010	2009
	\$'000	\$'000
Current tax expense	68,541	35,726
Deferred tax expense	<u>17,347</u>	<u>46,243</u>
	<u>85,888</u>	<u>81,969</u>

- (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 2010 and 2009.
- (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 corporate income tax at a rate of 25% during the six months ended 30 June 2010 (six months ended 30 June 2009: 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 corporate income tax for two years starting from its first profit-making year, followed by a 50% reduction in the PRC corporate 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 corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the six months ended 30 June 2010 and 2009.
 - (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 corporate income tax for five years starting from its first profit-making year, followed by a reduced PRC corporate income tax rate of 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.
- As at 30 June 2010, temporary differences relating to the undistributed profits of subsidiaries amounted to \$970,560,000. Deferred tax liabilities of \$48,528,000 were not recognised in respect of the undistributed profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future. All temporary differences on undistributed profits were recognised as at 31 December 2009.
- (e) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered as a PRC resident enterprise and are subject to PRC corporate 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 corporate income tax 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 2010 was 6.1% (six months ended 30 June 2009: 8.9%).

8. Dividends

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

	Six months ended 30 June	
	2010	2009
	\$'000	\$'000
Interim dividend proposed after the balance sheet date of \$0.200 per share (six months ended 30 June 2009: \$0.150 per share)	<u>352,657</u>	<u>230,379</u>

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	
	2010	2009
	\$'000	\$'000
Final dividend in respect of the financial year ended 31 December 2009, approved and paid during the following interim period, of \$0.150 per share (year ended 31 December 2008: \$0.080 per share)	<u>264,493</u>	<u>122,780</u>

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 \$1,309,437,000 (six months ended 30 June 2009: \$841,250,000) and the weighted average number of ordinary shares of 1,718,255,000 (six months ended 30 June 2009: 1,531,955,000).

(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 \$1,309,437,000 (six months ended 30 June 2009: \$841,250,000) and the diluted weighted average number of ordinary shares of 1,763,323,000 (six months ended 30 June 2009: 1,542,164,000) after adjusting the effect of deemed issue of shares under the Company's share option scheme.

10. Trade and other receivables

An ageing analysis of trade receivables based on invoice date and a breakdown of trade and other receivables as at balance sheet date are analysed as follows:

	30 June 2010 \$'000	31 December 2009 \$'000
Within 30 days	499,369	296,053
31 days to 90 days	187,447	130,388
91 days to 180 days	40,118	148,144
Over 180 days	<u>11,998</u>	<u>16,162</u>
	738,932	590,747
Less: provision for impairment of trade receivables	<u>(10,547)</u>	<u>(15,065)</u>
Total trade debtors, net of impairment loss	728,385	575,682
Bills receivable	8,976	—
Value-added tax (“VAT”) recoverable	363,566	275,188
Deposits, prepayments and other receivables	41,849	32,462
Others	<u>47,661</u>	<u>43,235</u>
	<u>1,190,437</u>	<u>926,567</u>

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

11. Trade and other payables

An ageing analysis of trade payables based on invoice date and a breakdown of trade and other payables as at balance sheet date are analysed as follows:

	30 June 2010 \$'000	31 December 2009 \$'000
Within 30 days	398,013	343,132
31 days to 90 days	48,271	61,434
91 days to 180 days	22,763	13,402
Over 180 days	<u>10,710</u>	<u>21,780</u>
 Total trade creditors	 479,757	 439,748
 Bills payable	 114,995	 —
Receipts in advance	116,080	110,616
Deposit from customers	47,503	45,223
Salary and welfare payables	78,624	78,402
VAT payable	4,109	1,013
Amounts due to related companies	6,256	4,998
Derivative financial instruments	1,396	3,779
Other payables and accruals	<u>357,046</u>	<u>400,971</u>
	 <u>1,205,766</u>	 <u>1,084,750</u>

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.20 per share for the six months ended 30 June 2010 (for the six months ended 30 June 2009: HK\$0.15) which shall be payable on or about Monday, 20 September 2010 to shareholders whose names appear on the Register of Members of the Company (the “Register of Members”) on Thursday, 9 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 8 September 2010 to Thursday, 9 September 2010, 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 no later than 4:30 p.m. on Tuesday, 7 September 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In the first half of 2010, domestic consumption in China continued to be promising, which provided great support to the development of the Chinese meat product market. In addition, with its active expansion of production capacity as well as improvement of its nationwide capacity and market strategy in recent years, the Group maintained a sustainable business growth and market share enhancement to further strengthen its leading position in the Chinese hog slaughtering and pork product industries during the Review Period.

During the Review Period, hog price has been volatile. To ensure the healthy development of the nationwide hog market, the Central Government once again increased nationwide pork reserves in several regions in accordance with the “Contingency Plan on Preventing Excessive Drop in Hog Price” during the second quarter of 2010. The breeding market regained confidence, ensuring future hog supply and stability in overall development of the industry.

After the Central Government had implemented a series of regulations including the “Administrative Provision for Live Pig Slaughtering” and the “Food Safety Law” in order to raise the standards of the overall meat product industry and to promote the long-term development of the hog slaughtering industry, it subsequently put into place the “Guideline For National Hog Slaughtering Industry Development (2010-2015)” in late 2009, which aims to eliminate outdated hog slaughtering capacity across the nation on a large scale in the coming five years, and to accelerate industry consolidation. In addition, through expanding the scale of industry consolidation, the meat product market in China will increase its sales proportion of chilled and small packaged pork products in the future. The increasing concerns from the Government and consumers over food safety provide the Group with favourable policies and business environment, as well as numerous business opportunities arising from industry consolidation, helping the Group to strive for higher sales and profitability of upstream chilled pork products and downstream low temperature meat products (“LTMP”) in the future.

Business Review

Benefiting from the increasing demand from Chinese consumers for high-quality pork products and Yurun’s advanced production capacity and market strategy, the Group was able to record a significant growth in business during the Review Period. Regarding the upstream slaughtering segment, the slaughtering volume recorded a significant increase of 59.6% to approximately 7.01 million heads, as compared to the same period last year. The downstream meat processing segment also achieved steady growth, enhancing the Group’s continuous business development.

Sales and Distribution

The sales of branded chilled pork and LTMP, which have relatively high added value and gross margins, continued to play an important role in the growth of the Group's overall turnover and profit during the Review Period. In the first half of 2010, turnover attributable to sales of chilled pork reached HK\$5.930 billion, representing a significant increase of 51.1% over the same period last year, accounting for 63.2% of the total turnover prior to inter-segment eliminations (1H2009: 61.2%). Turnover attributable to sales of LTMP was HK\$1.747 billion, representing an increase of 13.7% over the same period last year, accounting for 18.6% of the total turnover prior to inter-segment elimination (1H2009: 23.9%).

Production Facilities and Production Capacity

The Group continued to increase production capacity through selective acquisitions, enhancement of current production facilities and construction of new plants, to enlarge its market share and to satisfy the growing demand for its products, as well as to fully capture opportunities brought by the market consolidation of the slaughtering industry. The Group intends to further increase its LTMP production capacity in Nanjing. As at the date of this announcement, no detailed plans and schedules of such investment have been confirmed.

As at 30 June 2010, the upstream slaughtering capacity of the Group was 28.55 million heads per year, representing an increase of 3.00 million heads as compared to 25.55 million heads at the end of 2009. The Group's annual capacity of the downstream meat processing was 283 thousand tons, an increase of 5 thousand tons as compared to that at the end of 2009.

Product Quality and R&D

The Group has always remained adamant on the highest product quality. Strict internal quality control procedures of international standards have been applied to processes ranging from procurement, production, sales to logistics. Yurun Food has successfully developed a positive corporate image of quality food in the minds of consumers that allows the Group to maintain strong competitive advantages in the market, enlarge its market share and further strengthen its leading position in the industry.

In addition, the Group continued to expand its R&D team and strengthen its research efforts, focusing on mid-to-high-end products and new competitive products, as well as to lead the trends of meat product consumption in order to gain competitive advantages. Driven by the increasing demand for high quality meat products, the Group's overall sales volume of upstream and downstream businesses increased significantly to approximately 650 thousand tons during the Review Period, an increase of approximately 211 thousand tons as compared to the same period last year.

Financial Review

The Group recorded a turnover of HK\$8.693 billion in the first half of 2010, representing a significant growth of 49.0% as compared to HK\$5.834 billion in the same period last year. During the Review Period, net profit showed robust growth, increasing by 55.7% as compared to the corresponding period last year, reaching HK\$1.309 billion (1H2009: HK\$0.841 billion). Diluted earnings per share was HK\$0.743, representing an increase of 36.3% as compared to HK\$0.545 in the same period last year.

Turnover

Chilled and Frozen Pork

Benefiting from the ample supply of hogs and excellent strategic planning, the Group's upstream sales volume during the Review Period increased significantly by 55.7% as compared to the same period last year. In the first half of 2010, the total sales generated from the upstream business (before inter-segment eliminations) increased by 57.0% to HK\$7.520 billion as compared to the same period last year. This growth was mainly attributable to superior capacity and a well-established brand recognition, as well as the robust consumption demand in China during the Review Period.

Sales of chilled pork accounted for 78.9% of the total turnover of the upstream business (1H2009: 82.0%), reaching HK\$5.930 billion, an increase of 51.1% as compared to the same period last year. Sales of frozen pork accounted for 21.1% of the total turnover of the upstream business (1H2009: 18.0%), reaching HK\$1.590 billion, an increase of 84.2% as compared to the same period last year.

Processed Meat Products

During the Review Period, sales of processed meat products reached HK\$1.863 billion (1H2009: HK\$1.626 billion), increased by 14.5% from the same period last year. The growth was benefited from the strong brand recognition of "Yurun" and the favourable trend of China's sustaining economic recovery, as well as the Group's continuous improvement in its product mix and launch of new products with high added value.

During the Review Period, turnover of LTMP reached HK\$1.747 billion, representing an increase of 13.7% as compared to HK\$1.536 billion recorded for the corresponding period last year. LTMP accounted for approximately 93.8% (1H2009: 94.5%) of the total turnover of the processed meat segment, and continued to be the key revenue driver of the processed meat business. Turnover attributable to high temperature meat products ("HTMP") was HK\$116 million (1H2009: HK\$90 million), accounting for approximately 6.2% (1H2009: 5.5%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

The Group's overall gross profit increased by 37.8% from HK\$0.976 billion in the first half of 2009 to HK\$1.345 billion in the first half of 2010. Due to the rapid increase of the upstream business, which accounted for a higher percentage of the total turnover, gross profit margin decreased slightly by 1.2 percentage points from 16.7% to 15.5%.

With respect to the upstream business, the gross profit margin of chilled and frozen pork was 11.7% and 6.6% respectively (1H2009: 11.9% and 6.5% respectively). Overall gross profit margin for the upstream segment was 10.6%, a slight decrease of 0.3 percentage points as compared to 10.9% in the corresponding period last year.

As for the downstream products, the gross profit margin for LTMP was 29.9%, representing an increase of 1.5 percentage points as compared to 28.4% in the same period last year. Gross profit margin for HTMP was 21.0%, representing an increase of 0.5 percentage points as compared to the corresponding period last year. Overall gross profit margin for the downstream segment was 29.4%, an increase of 1.4 percentage points as compared to 28.0% in the same period last year. This was mainly attributable to decreasing hog purchasing cost, the Group's efficient and effective inventory management, strong brand recognition and diversified product mix. This allowed the Group to increase its overall gross profit margin through optimizing sales of products with higher margins and added value, while lowering costs.

Other Operating Income

Other operating income of the Group mainly included government subsidies and negative goodwill. During the Review Period, other operating income of the Group was HK\$634 million, a significant increase from HK\$371 million in the corresponding period last year. This was mainly attributable to the increasing Government subsidies to HK\$461 million, rewarding the Group for aiding the development of the agricultural industry, representing a substantial increase from HK\$230 million in the same period last year. Negative goodwill from acquisitions for the period was HK\$133 million.

Operating Expenses

Operating expenses of the Group included distribution expenses, and administrative and other operating expenses. During the Review Period, the operating expenses of the Group were HK\$527 million, representing an increase of 32.6% as compared to HK\$398 million in the same period last year. Operating expenses represented 6.1% of the Group's turnover, a decrease of 0.7 percentage points as compared to 6.8% in the same period last year, which demonstrated the Group's ability to control cost effectively while expanding its business rapidly.

Operating Profit

In the first half of 2010, the Group's operating profit was HK\$1.451 billion, increased by 52.8% from HK\$0.950 billion in the same period last year.

Net Financing Expenses

The Group's net financing expenses for the first half of 2010 was HK\$53.30 million while the Group recorded net financing expenses of HK\$24.80 million in the same period last year.

Income Tax

The total income tax for the six months ended 30 June 2010 was HK\$86 million, representing an increase as compared to HK\$82 million in the same period last year. The effective tax rate was 6.1%, a decrease of 2.8 percentage points as compared to 8.9% in the same period last year.

Net Profit

Taken together, the net profit of the Group increased by 55.7% from HK\$0.841 billion in the first half of 2009 to HK\$1.309 billion in the first half of 2010. Net profit margin for the Review Period was 15.1%, representing an increase of 0.7 percentage points from 14.4% in the same period last year. All in all, the Group realized remarkable growth in various aspects, which again demonstrated the competitive advantages of the Group in strategic planning and business operations.

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities during the Review Period, and the net proceeds of approximately HK\$2.114 billion raised from the issue of 90,000,000 new shares at a price of HK\$23.88 per share in April 2010. The Group's net cash inflow from operating activities in the first half of 2010 amounted to HK\$0.897 billion. Cash balance and pledged deposits of bank loan as at 30 June 2010 amounted to HK\$5.507 billion, representing an increase of HK\$2.206 billion as compared to HK\$3.301 billion as at 31 December 2009.

As at 30 June 2010, the Group had HK\$3.701 billion outstanding loans, representing an increase of HK\$0.569 billion compared to HK\$3.132 billion as at 31 December 2009.

Whilst funds were used for strategic acquisitions and investments in production facilities during the Review Period, the Group continued to maintain 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 2010, the total assets and total liabilities of the Group were HK\$16.919 billion and HK\$5.243 billion respectively, representing an increase of HK\$3.984 billion and HK\$0.709 billion as compared to that as at 31 December 2009, respectively.

As at 30 June 2010, the equity attributable to equity holders of the Company was HK\$11.637 billion, representing an increase of HK\$3.267 billion as compared to HK\$8.370 billion as at 31 December 2009.

As at 30 June 2010, the 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) of the Group was 24.9%, a decrease of 3.4 percentage points from 28.3% as at 31 December 2009.

Charges on Assets

As at 30 June 2010, certain properties and lease prepayments of the Group with a carrying amount of HK\$42.56 million and HK\$31.38 million respectively (31 December 2009: HK\$44.36 million and HK\$31.33 million respectively) were pledged against certain bank loans with a total amount of HK\$78.55 million (31 December 2009: HK\$77.58 million). Bank loans and bills payable of the Group amounted to HK\$1.074 billion (31 December 2009: HK\$1.243 billion) were secured by pledged deposits of HK\$0.580 billion (31 December 2009: HK\$0.758 billion).

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Acquisition of 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. The Group intends to further invest in its LTMP factory in Nanjing. The details regarding the investment in Nanjing are yet to be confirmed. Save as disclosed above, as at the date of the announcement, there is no significant investment or plans to acquire capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 30 June 2010.

Exposure to Fluctuation in Exchange Rates and Related Hedges

The business of the Group was mainly conducted in Renminbi except that the purchases of some equipment and raw materials and payment of certain professional fees were in United States dollars (“USD”), Euros and Hong Kong dollars. The functional currency of the PRC subsidiaries is Renminbi which is not freely convertible. The Group has entered into certain USD and Euros foreign exchange forward contracts. The Group will monitor its exposure by taking into account of the factors including but not limited to the exchange rate movement of the relevant foreign currencies and the cashflow requirements of the Group to keep the risk at an acceptable level.

HUMAN RESOURCES

As at 30 June 2010, the Group had 18,689 (31 December 2009: 16,458) employees in the PRC (including Hong Kong). During the Review Period, total staff cost was HK\$0.271 billion, accounting for 3.1% 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-based bonuses and a share option scheme to encourage and reward the employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

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 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS 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 and rules 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 2010.

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 2010, except for the issue of 65,000 shares of the Company under the share option scheme.

In April 2010, 90,000,000 shares in the Company were placed to investors, details of which are set out in the Company's announcement dated 22 April 2010.

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 2010.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The 2010 interim report of the Company containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk) and the Company's website (www.yurun.com.hk) in due course.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 24 August 2010

As at the date of this announcement, the executive directors of the Company are Zhu Yicai, Zhu Yiliang, Feng Kuande, Ge Yuqi and Yu Zhangli; the non-executive directors are Jiao Shuge (alias Jiao Zhen), Wang Kaitian and Li Chenghua; and the independent non-executive directors are Gao Hui, Qiao Jun and Chen Jianguo.

** For identification purposes only*