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 2014

SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited (the "Company" or "Yurun Food") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014. The interim financial report for the six months ended 30 June 2014 (the "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 the shareholders. The results have also been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2014 – unaudited

		Six months ended 30 June	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**9,044,264**	10,302,738
Cost of sales		**(8,375,737)**	(9,883,696)
Gross profit		**668,527**	419,042
Other net income	*4*	**272,298**	541,137
Distribution expenses		**(309,067)**	(319,988)
Administrative and other operating expenses		**(484,066)**	(516,045)
Results from operating activities		**147,692**	124,146
Finance income		**19,444**	32,977
Finance costs		**(138,253)**	(115,363)
Net finance costs	*5(a)*	**(118,809)**	(82,386)
Share of loss of an associate (net of income tax)		**–**	(133)
Share of loss of a joint venture (net of income tax)		**(2,619)**	(2,085)
Profit before income tax	*5*	**26,264**	39,542
Income tax expense	*6*	**(10,155)**	(23,903)
Profit for the period		**16,109**	15,639
Attributable to:			
Equity holders of the Company		**16,052**	17,770
Non-controlling interests		**57**	(2,131)
Profit for the period		**16,109**	15,639
Earnings per share			
Basic	*7(a)*	**HK$0.009**	HK$0.010
Diluted	*7(b)*	**HK$0.009**	HK$0.010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2014 – unaudited

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Profit for the period	**16,109**	15,639
Other comprehensive income for the period (after reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	**(136,912)**	257,048
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary	**–**	(16,951)
	(136,912)	240,097
Total comprehensive income for the period	**(120,803)**	255,736
Attributable to:		
Equity holders of the Company	**(120,273)**	256,865
Non-controlling interests	**(530)**	(1,129)
Total comprehensive income for the period	**(120,803)**	255,736

CONSOLIDATED BALANCE SHEET

at 30 June 2014 – unaudited

	Note	**30 June 2014** ***HK$'000***	31 December 2013 *HK$'000*
Non-current assets			
Property, plant and equipment		**16,190,799**	15,926,126
Investment properties		**200,229**	205,944
Lease prepayments		**3,800,904**	3,881,766
Goodwill		**95,810**	96,736
Interest in a joint venture		**15,481**	18,268
Non-current prepayments		**411,734**	424,651
Deferred tax assets		**24,637**	28,064
		20,739,594	20,581,555
Current assets			
Inventories		**1,598,320**	1,170,362
Current portion of lease prepayments		**86,738**	87,579
Trade and other receivables	*8*	**2,668,809**	2,608,302
Income tax recoverable		**4,865**	4,365
Pledged deposits		**10,808**	11,483
Time deposits		**24,347**	33,629
Cash and cash equivalents		**1,122,176**	2,444,694
		5,516,063	6,360,414
Current liabilities			
Bank loans		**3,224,780**	3,415,390
Finance lease liabilities		**533**	634
Trade and other payables	*9*	**2,076,911**	2,244,741
Income tax payable		**7,701**	11,091
		5,309,925	5,671,856
Net current assets		**206,138**	688,558
Total assets less current liabilities		**20,945,732**	21,270,113
Non-current liabilities			
Bank loans		**1,834,684**	1,977,820
Medium term notes		**2,894,124**	2,921,312
Finance lease liabilities		**146,273**	181,763
Deferred tax liabilities		**180,140**	177,904
		5,055,221	5,258,799
NET ASSETS		**15,890,511**	16,011,314
EQUITY			
Share capital		**182,276**	182,276
Reserves		**15,647,462**	15,767,735
Total equity attributable to equity holders of the Company		**15,829,738**	15,950,011
Non-controlling interests		**60,773**	61,303
TOTAL EQUITY		**15,890,511**	16,011,314

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2014 – unaudited

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Cash used in operations	**(538,135)**	(303,108)
Tax paid	**(7,283)**	(18,242)
Net cash used in operating activities	**(545,418)**	(321,350)
Net cash used in investing activities	**(472,185)**	(343,295)
Net cash (used in)/generated from financing activities	**(288,360)**	586,241
Net decrease in cash and cash equivalents	**(1,305,963)**	(78,404)
Cash and cash equivalents at 1 January	**2,444,694**	2,812,267
Effect of exchange rate fluctuation on cash held	**(16,555)**	52,029
Cash and cash equivalents at 30 June	**1,122,176**	2,785,892

NOTES:

1 BASIS OF PREPARATION

The interim financial report of the Group 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 (the "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 22 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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 number of amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. These developments have had no material impact on the contents of this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 periods ended 30 June 2014 and 2013 is set out below.

	Chilled and frozen meat		**Processed meat products**		**Total**	
	Six months ended 30 June		**Six months ended 30 June**		**Six months ended 30 June**	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**7,619,387**	8,825,483	**1,424,877**	1,477,255	**9,044,264**	10,302,738
Inter-segment revenue	**530,519**	319,974	**1,097**	4,054	**531,616**	324,028
Reportable segment revenue	**8,149,906**	9,145,457	**1,425,974**	1,481,309	**9,575,880**	10,626,766
Depreciation and amortisation	**(255,770)**	(248,795)	**(47,990)**	(50,111)	**(303,760)**	(298,906)
Reversal of/(provision for) impairment losses on trade and other receivables	**7,412**	(1,603)	**16,574**	(2,511)	**23,986**	(4,114)
Government subsidies	**79,596**	270,740	**140,895**	27,320	**220,491**	298,060
Reportable segment (loss)/profit	**(16,922)**	(68,157)	**183,832**	25,111	**166,910**	(43,046)
Income tax expense	**(939)**	(2,000)	**(8,917)**	(21,766)	**(9,856)**	(23,766)

Segment assets and liabilities of the Group are not reported to the Group's most senior executive management regularly. As a result, reportable segment assets and liabilities have not been presented in this interim financial report.

(b) Reconciliations of reportable segment revenue and profit

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Revenue		
Total revenue from reportable segments	**9,575,880**	10,626,766
Elimination of inter-segment revenue	**(531,616)**	(324,028)
Consolidated revenue	**9,044,264**	10,302,738
Profit		
Reportable segment profit/(loss)	**166,910**	(43,046)
Elimination of inter-segment profits	**(2,917)**	(9,803)
Reportable segment profit/(loss) derived from Group's external customers	**163,993**	(52,849)
Share of loss of an associate	**–**	(133)
Share of loss of a joint venture	**(2,619)**	(2,085)
Gain on disposal of a subsidiary	**–**	222,191
Net finance costs	**(118,809)**	(82,386)
Income tax expense	**(10,155)**	(23,903)
Unallocated head office and corporate expenses	**(16,301)**	(45,196)
Consolidated profit for the period	**16,109**	15,639

4 OTHER NET INCOME

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Government subsidies	**221,823**	298,060
Gain on disposal of a subsidiary *(note)*	**–**	222,191
Rental income	**16,591**	10,226
Sales of scrap	**3,005**	2,781
Sundry income	**30,879**	7,879
	272,298	541,137

Note: In 2013, the Group disposed of its entire equity interest in its wholly owned subsidiary in chilled and frozen meat segment to independent third parties, at a cash consideration of HK$357,373,000. A gain on disposal of a subsidiary amounting to HK$222,191,000 was recognised in profit or loss during the six months ended 30 June 2013 (six months ended 30 June 2014: HK$Nil).

5 PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
(a) Net finance costs		
Interest on bank loans and medium term notes wholly repayable within five years	**206,496**	191,145
Interest on bank loans not wholly repayable within five years	**32,426**	32,125
Interest on lease obligations	**3,217**	3,288
Less: Interest expense capitalised into property, plant and equipment under development	**(114,080)**	(113,036)
	128,059	113,522
Bank charges	**1,227**	1,841
Net foreign exchange loss/(gain)	**8,967**	(9,302)
Interest income from bank deposits	**(6,825)**	(13,271)
Investment income from available-for-sale financial assets	**(12,619)**	(10,404)
	118,809	82,386
(b) Other items		
(Reversal of)/provision for impairment losses on trade and other receivables	**(23,986)**	4,114
Amortisation of lease prepayments	**43,799**	42,057
Depreciation	**267,987**	264,723

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Current tax expense	**3,383**	24,999
Deferred tax	**6,772**	(1,096)
	10,155	23,903

(a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "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 2014 and 2013.

(c) Pursuant to the income tax rules and regulations of the People's Republic of China (the "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 2014 and 2013, except for the enterprises engaged in the primary processing of agricultural products which 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 2014 and 2013.

(d) 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.

(e) The Group's consolidated effective tax rate for the six months ended 30 June 2014 was 38.7% (six months ended 30 June 2013: 60.4%).

7 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$16,052,000 (six months ended 30 June 2013: HK$17,770,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2013: 1,822,756,000).

(b) Diluted earnings per share

Diluted earnings per share equal to basic earnings per share for the six months ended 30 June 2014 and 30 June 2013 because all potential ordinary shares outstanding were anti-dilutive.

8 TRADE AND OTHER RECEIVABLES

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) of the Group based on invoice date and a breakdown of trade and other receivables as at the balance sheet date are analysed as follows:

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
Trade receivables		
– Within 30 days	**300,030**	433,858
– 31 days to 90 days	**182,813**	137,238
– 91 days to 180 days	**47,001**	146,152
– Over 180 days	**97,586**	45,085
	627,430	762,333
Less: Provision for impairment of trade receivables	**(11,821)**	(38,733)
Total trade receivables, net of impairment losses	**615,609**	723,600
Bills receivable	**7,206**	26,904
Value-added tax ("VAT") recoverable	**1,745,615**	1,606,379
Deposits and prepayments	**107,307**	155,323
Others	**193,072**	96,096
	2,668,809	2,608,302

All of the trade and other receivables are expected to be recovered within one year.

9 TRADE AND OTHER PAYABLES

An ageing analysis of trade payables based on invoice date and a breakdown of trade and other payables (including amounts due to related parties) as at the balance sheet date are analysed as follows:

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
Trade payables		
– Within 30 days	**636,864**	707,780
– 31 days to 90 days	**99,861**	129,745
– 91 days to 180 days	**19,954**	30,593
– Over 180 days	**62,571**	63,075
Total trade payables	**819,250**	931,193
Receipts in advance	**172,001**	249,161
Deposits from customers	**122,919**	107,432
Salary and welfare payables	**105,134**	109,221
VAT payable	**7,227**	4,145
Payables for acquisitions of property, plant and equipment	**480,690**	412,118
Other payables and accruals	**369,690**	431,471
	2,076,911	2,244,741

10 DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: HK$Nil).

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Review Period (2013: HK$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview (and Outlook)

During the Review Period, China's national economy slowed down but remained stable. According to the data published by the National Bureau of Statistics of China, China's gross domestic product (GDP) for the first half of 2014 was Renminbi ("RMB") 26,904.4 billion, representing an increase of 7.4% over the same period of 2013 based on comparable prices.

During the Review Period, the domestic hog market remained sluggish and hog price dropped rapidly since end of last year. After the rapid rebound of hog price during the peak season in May of this year, the demand for pork entered the usual slack season in June. The average hog price during the Review Period therefore decreased significantly compared to same period last year. To maintain a stable market as well as to protect hog farmers' interests, the Central Government conducted the second purchase of frozen pork as state reserve in May this year, Such purchase enhanced the incentive of hog farmers and breeding farms to increase farm sizes, which ensured hog supply and overall stable and orderly development of the industry in the future.

The Group adjusted the pace of expansion in recent years and adopted more prudent investment strategies. Under the impact of numerous unfavourable factors and challenges, the Group managed to maintain steady business growth and laid a foundation for future development of the Group.

Business Review

During the Review Period, the slackened domestic economic growth, increasingly competitive market environment and increasing production costs brought certain challenges to the business development of the Group. The rapid increase in production capacity of the Group over the past few years resulted in lowered utilization rate at the moment, leading to pressure to amortize fixed costs and the business operation being affected. Facing these challenges, the Group adopted various measures, such as strengthened brand positioning and images, improved communication channels with public, followed the relevant national policies to mitigate food safety risks, developed sales channels through chain restaurants and branded shops, adhered to product innovation and technological advancement, diversified products and adjusted the expansion pace and scale. These measures mainly aimed at increasing the profit and improving the utilization rate gradually. The management will continue to adopt corresponding measures to strike the balance between the profit and the utilization rate in order to ensure the long term and stable development of the Group.

Product Quality and R&D

During the Review Period, Yurun Food adhered to the operation philosophy of "you trust because we care" and led the industry development by technical research and development. Under the leadership of the Group's management, quality of products were guaranteed through advanced production process and technology. In the 22nd Press Conference releasing the Product Sales Statistics of the PRC Market (第二十二屆中國市場商品銷售統計結果新聞發佈會) held in April 2014, Yurun Food ranked top in the market shares of low temperature meat products ("LTMP") and chilled pork in the PRC, and successively held the first position of market shares of LTMP in the PRC market for the past consecutive 16 years. The Group will continue to ensure high product quality, and also focus on the research and development of products which are well received by the market, so as to maintain its competitive advantages and leading position in the industry.

Sales and Distribution

Chilled pork and LTMP, which are the Group's products with higher added value, continued to play an important role in the overall business development of the Group during the Review Period. In the first half of 2014, due to the drop in hog price, sales of chilled pork of the Group was HK$7.125 billion (1H2013: HK$7.841 billion), representing a decrease of 9.1% over the same period last year, accounting for approximately 74% of the total turnover of the Group prior to inter-segment eliminations (1H2013: 74%) and approximately 87% of the total turnover of the upstream slaughtering segment (1H2013: 86%). Sales of LTMP was HK$1.303 billion (1H2013: HK$1.326 billion), representing a decrease of 1.8% over the same period last year, accounting for approximately 14% of the total turnover of the Group prior to inter-segment eliminations (1H2013: 13%) and approximately 91% of the total turnover of the downstream processed meat segment (1H2013: 90%).

Production Facilities and Production Capacity

Adhering to the strict control of investment costs, the Group adjusted its expansion pace according to market change and the operation status of the Group.

In respect to its upstream slaughtering segment, under the management's adjustment in expansion pace, only two new plants of the Group commenced production during the Review Period. As at 30 June 2014, upstream slaughtering capacity was 56.65 million heads per year, representing a slight increase of 1.20 million heads as compared with that as at 31 December 2013.

As of 30 June 2014, the Group's production capacity of downstream processed meat segment remained unchanged at approximately 312,000 tons per year as compared with that as at 31 December 2013.

Financial Review

The Group recorded a turnover of HK$9.044 billion in the first half of 2014, representing a decrease of 12.2% as compared with HK$10.303 billion in the same period last year. The Group recorded profit for the period of HK$16.11 million (1H2013: HK$15.64 million) in the first half of 2014, representing an increase of 3.0% from the same period last year. Core results, being profit attributable to equity holders excluding government subsidies, gain on disposal of a subsidiary and net foreign exchange gain/loss of the Group, recorded a loss of HK$197 million (1H2013: HK$512 million), representing a significant reduction of a loss by approximately 61.5% over the same period last year. Diluted earnings per share was HK$0.009, representing a decrease of 10.0% from HK$0.010 in the same period last year.

Turnover

Chilled and Frozen Pork

During the Review Period, the slaughtering volume of the Group increased by approximately 1.8% over that of last year mainly because the Group's major objective was to improve the profitability and therefore made appropriate compromise to the growth of the slaughtering volume.

In the first half of 2014, total sales from upstream business (before inter-segment eliminations) decreased by 10.9% to HK$8.150 billion (1H2013: HK$9.145 billion) as compared with the same period last year, of which, sales of chilled pork decreased by 9.1% to HK$7.125 billion (1H2013: HK$7.841 billion), accounting for approximately 74% (1H2013: 74%) and approximately 87% (1H2013: 86%) of the total turnover (before inter-segment eliminations) of the Group and the total turnover of the upstream business of the Group respectively. Sales of frozen pork decreased by 21.4% to HK$1.025 billion (1H2013: HK$1.304 billion), accounting for approximately 13% of the total turnover of the upstream business (1H2013: 14%).

Processed Meat Products

During the Review Period, sales of processed meat products (before inter-segment eliminations) of the Group was HK$1.426 billion (1H2013: HK$1.481 billion), representing a decrease of 3.7% over the same period last year.

Specifically, turnover of LTMP was HK$1.303 billion, representing a decrease of 1.8% as compared with HK$1.326 billion in the same period last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 91% (1H2013: 90%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$123 million (1H2013: HK$155 million), accounting for approximately 9% (1H2013: 10%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 59.5% from HK$419 million in the first half of 2013 to HK$669 million during the Review Period. Overall gross profit margin increased by 3.3 percentage points to 7.4% from 4.1% in the same period last year. During the Review Period, the increase in gross profit margin was due to the gradual recovery of business and positive effects of new measures of the Group, such as refining the sales channels.

With respect to the upstream business, gross profit margin of chilled pork and frozen pork were 6.4% and -4.2% respectively (1H2013: 3.8% and -10.5% respectively). The overall gross profit margin of the upstream segment was 5.1%, representing an increase of 3.4 percentage points as compared with 1.7% over the same period last year.

With respect to downstream processed meat products, gross profit margin of LTMP was 17.9%, representing a decrease of 1.4 percentage points as compared with 19.3% of the same period last year. Gross profit margin of HTMP was 17.5%, representing an increase of 2.3 percentage points year on year. Overall gross profit margin of the downstream segment was 17.9%, representing a decrease of 0.9 percentage point as compared with 18.8% of the same period last year.

Other Net Income

Other net income for the first half of this year mainly included government subsidies and cold storage rental income. During the Review Period, other net income of the Group was HK$272 million, representing a decrease of HK$269 million as compared with HK$541 million in the same period last year because there was a gain on the disposal of a subsidiary of HK$222 million in the first half of 2013 but not during the Review Period.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK$793 million, representing a decrease of 5.1% as compared with HK$836 million in the same period last year. Such decrease was mainly due to decrease in staff cost and other operating costs under the streamlining and cost control measures during the Review Period. Operating expenses represented 8.8% of the Group's turnover, an increase of 0.7 percentage point as compared with 8.1% of the same period last year due to the decrease in turnover during the Review Period.

Operating Profit

Operating profit of the Group during the Review Period was HK$148 million, representing an increase of 19.0% from HK$124 million of the same period last year.

Finance Costs

During the Review Period, net finance costs of the Group were HK$119 million as compared with HK$82.39 million in the same period last year. Net finance costs increased mainly because of the increase in interests expense on borrowing due to increased average bank and other borrowings during the Review Period. In addition, depreciation of RMB against Hong Kong dollars compared to 2013 resulted in foreign exchange loss of approximately HK$9 million during the Review Period, contrary to the foreign exchange gains of approximately HK$9 million from appreciation of RMB against Hong Kong dollars in same period last year.

Income Tax

The income tax for the Review Period was HK$10.16 million, representing a decrease of 57.5% as compared with HK$23.90 million of the same period last year. Effective tax rate was 38.7%, representing a decrease of 21.7 percentage points as compared with 60.4% in the same period last year. The decrease was mainly due to decrease in taxable profit of the meat processing operations during the Review Period.

Profit Attributable to Equity Holders of the Company

Taking into account all of the above factors, profit attributable to equity holders of the Company was HK$16.05 million for the Review Period (1H2013: HK$17.77 million). Net profit margin for the Review Period was 0.2%, comparable to that of the same period last year.

Financial Resources

As at 30 June 2014, the Group's cash balance together with time deposits and pledged deposits were HK$1.157 billion, approximately 97% (31 December 2013: 95%) of which was denominated in Hong Kong dollars and RMB, representing a decrease of HK$1.333 billion as compared with HK$2.490 billion as at 31 December 2013. They were mainly used in operating activities and payment for projects under construction.

As at 30 June 2014, the Group had outstanding bank loans of HK$7.954 billion (including the domestic medium term notes issued by Nanjing Yurun Food Co., Ltd, a wholly-owned subsidiary of the Company, "MTN"), representing a decrease of HK$361 million from HK$8.315 billion as at 31 December 2013, of which, HK$3.225 billion (31 December 2013: HK$3.415 billion) were bank loans which are repayable within one year, bank loans which are due within one year and renewable upon expiry. All of our borrowings were denominated in RMB, which is consistent with the borrowings as at 31 December 2013. The fixed rate debt ratio of the Group increased to 65.0% as at 30 June 2014 (31 December 2013: 62.3%). Taking into account the funds used for daily operations and investments in production facilities during the Review Period, the Group was still able to maintain prudent financial management. Having sufficient working capital together with adequate amount of unutilized credit facilities, the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group decreased by 22.8% to HK$510 million during the Review Period as compared with HK$660 million of the same period last year.

Assets and Liabilities

As at 30 June 2014, the total assets and total liabilities of the Group were HK$26.256 billion (31 December 2013: HK$26.942 billion) and HK$10.365 billion (31 December 2013: HK$10.931 billion) respectively, representing a decrease of HK$686 million and HK$566 million as compared with the total assets and liabilities as at 31 December 2013 respectively.

As at 30 June 2014, property, plant and equipment of the Group amounted to HK$16.191 billion (31 December 2013: HK$15.926 billion), representing a slight increase of HK$265 million as compared with that as at 31 December 2013.

Lease prepayment of the Group as at 30 June 2014 amounted to HK$3.888 billion (31 December 2013: HK$3.969 billion). This represented the purchase cost of land use rights which was amortized on a straight-line basis over the respective periods of the rights. There was no addition to cost of land use rights during the Review Period.

Non-current prepayments of the Group represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 30 June 2014, it amounted to HK$412 million (31 December 2013: HK$425 million). These assets have not started to depreciate nor amortize yet.

As at 30 June 2014, equity attributable to equity holders of the Company was HK$15.830 billion in total, representing a decrease of HK$120 million as compared with HK$15.950 billion as at 31 December 2013.

As at 30 June 2014, the gearing ratio (total debt represented by the sum of bank loans, the MTN and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 33.9%, representing a decrease of 0.9 percentage point as compared with 34.8% as at 31 December 2013. As at 30 June 2014, after excluding cash and cash equivalents, time deposits and pledged deposits, the gearing ratio was 29.0% (31 December 2013: 24.6%).

Charges on Assets

As at 30 June 2014, certain properties and construction in progress of the Group with a carrying amount of HK$667 million (31 December 2013: HK$1.019 billion) and lease prepayments of the Group with a carrying amount of HK$476 million (31 December 2013: HK$539 million) were pledged against certain bank loans with a total amount of HK$1.675 billion (31 December 2013: HK$2.110 billion).

As at 30 June 2014, secured loans of the Group amounted to HK$5.80 million (31 December 2013: HK$5.85 million) which were secured by pledged deposits denominated in RMB amounting to HK$6.30 million (31 December 2013: HK$6.41 million).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, Future Plans for Material Investment or Acquisition of Capital Assets

The Group did not hold any other significant investment nor make any material acquisition or disposal of subsidiaries during the Review Period. As at the date of this announcement, the Group has no plan to make any significant investment or acquisition of capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 30 June 2014.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. RMB is the functional currency of operating subsidiaries of the Group in the PRC, and is not freely convertible into foreign currencies. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

As at 30 June 2014, the Group had approximately 19,000 (31 December 2013: approximately 23,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK$445 million, accounting for 4.9% of the turnover (1H2013: HK$478 million, accounting for 4.6% of the turnover of the Group).

The Group offered its employees competitive remuneration and other employee benefits, including contributions to social security schemes, such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance-based bonuses and a share option scheme to encourage and reward 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.

Environmental Policies and Performance

As a responsible enterprise, the Group is committed to environmental protection and strives to minimize the impact of its existing production and business activities on the environment. During the Review Period, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to minimize waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

CORPORATE GOVERNANCE

The Company adheres to corporate governance principles of integrity, transparency, openness and efficiency. It has strived to strictly observe and follow stringent corporate governance practice at all times through a comprehensive corporate governance structure and measures so as to achieve a high standard of corporate governance and to improve shareholder value.

The Board currently comprises nine directors. To facilitate effective management, the Board has delegated certain functions to various Board committees, including, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Company has formulated specific terms of reference of each committee, covering its authority, responsibilities and functions. The major responsibilities of the Board and its committees include supervising the implementation of corporate governance, monitoring and advising the management in respect of financial and business strategy and targets, monitoring public disclosures, as well as assessing the performance of the management whether they are in line with the Company's operating objectives.

The Company has also established internal control system to ensure that the Company's assets are under protection, operating and governance measures are in place, business risks are properly managed and accounting records and financial statements are properly kept and maintained. The Audit Committee is responsible for reviewing the effectiveness of the Group's internal control system with the assistance of the Group's Internal Audit Department.

The Company maintains a highly transparent governance mechanism by publishing information to shareholders and investors in a timely manner. We use several communication channels to ensure that the Company's shareholders are provided with ready, equal and timely access to information about the Company.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Review Period except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as Qiao Jun, an independent non-executive director, Wang Kaitian and Li Chenghua, the non-executive directors, and Yu Zhangli, the Chairman of the Board, were absent from the annual general meeting of the Company held on 20 May 2014 for overseas or other engagements.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all directors of the Company in the securities of the Company. The Company, having made specific enquiry of all directors of the Company, confirms that the directors have complied with the required standards set out in the Model Code throughout the Review Period.

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 Review Period.

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 of the Group for the Review Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and of the Company (www.yurun.com.hk). The 2014 interim report of the Company containing all the information required by Appendix 16 to the Listing Rules, as applicable, will be despatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
Yu Zhangli
Chairman

Hong Kong, 22 August 2014

As at the date of this announcement, the executive directors of the Company are Yu Zhangli, Li Shibao, Feng Kuande and Ge Yuqi; the non-executive directors are Wang Kaitian and Li Chenghua; the independent non-executive directors are Gao Hui, Qiao Jun and Chen Jianguo.

* *For identification purposes only*