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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 2015**

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 2015. The interim financial report for the six months ended 30 June 2015 (the “Review Period”) is unaudited, but the results have been reviewed by the Company’s Audit Committee.

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2015 – unaudited

		Six months ended 30 June	
		2015	2014
	Note	HK\$'000	HK\$'000
Revenue	3	9,583,710	9,044,264
Cost of sales		<u>(9,328,376)</u>	<u>(8,375,737)</u>
Gross profit		255,334	668,527
Other net income	4	50,478	272,298
Distribution expenses		(365,860)	(309,067)
Administrative and other operating expenses		<u>(515,123)</u>	<u>(484,066)</u>
Results from operating activities		<u>(575,171)</u>	<u>147,692</u>
Finance income		11,481	19,444
Finance costs		<u>(153,343)</u>	<u>(138,253)</u>
Net finance costs	5(a)	<u>(141,862)</u>	<u>(118,809)</u>
Share of loss of a joint venture (net of income tax)		<u>(660)</u>	<u>(2,619)</u>
(Loss)/profit before income tax	5	(717,693)	26,264
Income tax expense	6	<u>(6,553)</u>	<u>(10,155)</u>
(Loss)/profit for the period		<u>(724,246)</u>	<u>16,109</u>
Attributable to:			
Equity holders of the Company		(723,991)	16,052
Non-controlling interests		<u>(255)</u>	<u>57</u>
(Loss)/profit for the period		<u>(724,246)</u>	<u>16,109</u>
(Loss)/earnings per share			
Basic	7(a)	<u>HK\$(0.397)</u>	<u>HK\$0.009</u>
Diluted	7(b)	<u>HK\$(0.397)</u>	<u>HK\$0.009</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2015 – unaudited

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
(Loss)/profit for the period	(724,246)	16,109
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	2,841	(136,912)
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary and a joint venture	(1,776)	–
	1,065	(136,912)
Total comprehensive income for the period	(723,181)	(120,803)
Attributable to:		
Equity holders of the Company	(722,944)	(120,273)
Non-controlling interests	(237)	(530)
Total comprehensive income for the period	(723,181)	(120,803)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2015 – unaudited

		30 June 2015 HK\$'000	31 December 2014 HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		16,627,351	16,540,504
Lease prepayments		3,509,963	3,606,989
Goodwill		96,441	96,405
Intangible asset		55,879	–
Interest in a joint venture		–	14,881
Non-current prepayments and receivables		230,752	305,831
Deferred tax assets		26,937	20,167
		<u>20,547,323</u>	<u>20,584,777</u>
Current assets			
Inventories		895,528	1,390,172
Other investment		–	101,407
Current portion of lease prepayments		81,973	82,860
Trade and other receivables	8	3,446,777	3,662,104
Income tax recoverable		2,179	1,581
Pledged deposits		211,476	232,809
Time deposits		11,295	6,168
Cash and cash equivalents		900,741	885,028
		<u>5,549,969</u>	<u>6,362,129</u>
Current liabilities			
Bank loans		3,887,305	3,818,771
Short term financing notes		634,035	–
Medium term notes		2,912,079	1,645,097
Finance lease liabilities		562	549
Trade and other payables	9	2,258,340	2,706,331
Income tax payable		8,551	12,427
		<u>9,700,872</u>	<u>8,183,175</u>
Net current liabilities		<u>(4,150,903)</u>	<u>(1,821,046)</u>
Total assets less current liabilities		<u>16,396,420</u>	<u>18,763,731</u>
Non-current liabilities			
Bank loans		997,130	1,379,154
Medium term notes		–	1,266,629
Finance lease liabilities		146,675	146,907
Deferred tax liabilities		28,484	23,729
		<u>1,172,289</u>	<u>2,816,419</u>
NET ASSETS		<u>15,224,131</u>	<u>15,947,312</u>
EQUITY			
Share capital		182,276	182,276
Reserves		14,987,024	15,709,968
Total equity attributable to equity holders of the Company		<u>15,169,300</u>	<u>15,892,244</u>
Non-controlling interests		<u>54,831</u>	<u>55,068</u>
TOTAL EQUITY		<u>15,224,131</u>	<u>15,947,312</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended 30 June 2015 – unaudited*

	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash used in operations	(47,990)	(538,135)
Tax paid	(13,026)	(7,283)
Net cash used in operating activities	(61,016)	(545,418)
Net cash used in investing activities	(255,538)	(472,185)
Net cash generated from/(used in) financing activities	331,969	(288,360)
Net increase/(decrease) in cash and cash equivalents	15,415	(1,305,963)
Cash and cash equivalents at 1 January	885,028	2,444,694
Effect of exchange rate fluctuations on cash held	298	(16,555)
Cash and cash equivalents at 30 June	900,741	1,122,176

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 10 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in note 2.

As at 30 June 2015, the Group had net current liabilities of HK\$4,150,903,000. Its total borrowings and finance lease liabilities amounted to HK\$8,577,786,000, out of which HK\$7,433,981,000 are due within 12 months of that date. The Group had operating cash outflow of HK\$61,016,000 for the six months ended 30 June 2015. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group’s ability to continue as a going concern. In view of such circumstances, the directors of the Group have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include but are not limited to the following:

- (i) In March 2015, a wholly-owned subsidiary of the Group has obtained approval from National Association of Financial Market Institutional Investors to issue (i) short term financing notes of an aggregate principal amount of up to Renminbi (“RMB”)1.8 billion with a term of 366 days from the date of issuance of which the first tranche of short term financing notes with principal amount of RMB500 million was issued on 16 March 2015 and (ii) private placement notes of an aggregate principal amount of up to RMB2.5 billion with a term of 3 years from the date of issuance. The total unutilised portion up to the date of the interim financial report amounted to RMB3.8 billion (approximately HK\$4.8 billion). In addition, the current bank loans which are due within one year are expected to be renewed upon maturity;
- (ii) Taking active measures to expedite collections of outstanding receivables; and
- (iii) Implementing comprehensive policies to improve profitability.

The directors have reviewed the Group’s cash flow projections covering a period of twelve months from the end of the reporting period prepared by management. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 the interim financial report.

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

In addition, accounting policies that are adopted by the Group in 2015 are set out below:

Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Computer software with finite useful life is amortised from the date it is available for use and its estimated useful life is 5 years. Both the period and method of amortisation are reviewed annually.

3 REVENUE 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 six months ended 30 June 2015 and 2014 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	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External revenue	8,288,353	7,619,387	1,295,357	1,424,877	9,583,710	9,044,264
Inter-segment revenue	182,111	530,519	16,636	1,097	198,747	531,616
Reportable segment revenue	<u>8,470,464</u>	<u>8,149,906</u>	<u>1,311,993</u>	<u>1,425,974</u>	<u>9,782,457</u>	<u>9,575,880</u>
Depreciation and amortisation	(205,331)	(255,770)	(65,890)	(47,990)	(271,221)	(303,760)
Reversal of/(provision for) impairment losses on trade and other receivables	276	7,412	(15,162)	16,574	(14,886)	23,986
Government subsidies	44,642	79,596	24,995	140,895	69,637	220,491
Reportable segment (loss)/profit	(428,828)	(16,922)	(81,897)	183,832	(510,725)	166,910
Income tax expense	<u>(1,302)</u>	<u>(939)</u>	<u>(4,932)</u>	<u>(8,917)</u>	<u>(6,234)</u>	<u>(9,856)</u>

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 the interim financial report.

(b) Reconciliations of reportable segment revenue and (loss)/profit

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Revenue		
Total revenue from reportable segments	9,782,457	9,575,880
Elimination of inter-segment revenue	(198,747)	(531,616)
Consolidated revenue	9,583,710	9,044,264
(Loss)/profit		
Reportable segment (loss)/profit	(510,725)	166,910
Elimination of inter-segment profits	4,165	(2,917)
Reportable segment (loss)/profit derived from Group's external customers	(506,560)	163,993
Share of loss of a joint venture	(660)	(2,619)
Loss on disposal of a joint venture	(2,086)	—
Loss on disposal of a subsidiary	(12,047)	—
Net finance costs	(141,862)	(118,809)
Income tax expense	(6,553)	(10,155)
Unallocated head office and corporate expenses	(54,478)	(16,301)
Consolidated (loss)/profit for the period	(724,246)	16,109

4 OTHER NET INCOME

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Government subsidies	70,446	221,823
Loss on disposal of a joint venture	(2,086)	—
Loss on disposal of a subsidiary (<i>note</i>)	(12,047)	—
(Loss)/gain on disposal of lease prepayment and property, plant and equipment	(55,248)	12,768
Rental income	17,920	16,591
Sales of scrap	175	3,005
Sundry income	31,318	18,111
	50,478	272,298

Note: In January 2015, the Group disposed of its entire equity interest in its wholly owned subsidiary in chilled and frozen meat segment to a third party, of which net assets disposed amounted to HK\$38,491,000. The cash consideration amounting to RMB24,300,000 (approximately HK\$30,164,000) shall be settled by instalments within five years from the date of the transfer agreement. A loss on disposal of a subsidiary amounting to HK\$12,047,000 was recognised in profit or loss during the six months ended 30 June 2015 (six months ended 30 June 2014: HK\$Nil).

5 (LOSS)/PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interest on bank loans, medium term notes and short term financing notes	253,783	238,922
Interest on lease obligations	2,689	3,217
Less: Interest expense capitalised into property, plant and equipment under development	(106,657)	(114,080)
	149,815	128,059
Bank charges	2,648	1,227
Net foreign exchange loss	880	8,967
Interest income from bank deposits	(7,047)	(6,825)
Investment income from available-for-sale financial assets	(4,434)	(12,619)
	141,862	118,809

Certain of the Group's bank loan facilities were subject to the fulfilment of covenants relating to the financial ratios and capital requirements, as are commonly found in lending arrangements with financial institutions. These financial ratios and capital requirements relate to the financial performance of certain subsidiaries of the Group in the People's Republic of China (the "PRC"). If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 30 June 2015, the Group could not fulfil covenants imposed by banks on loans of an aggregate amount of HK\$1,211,742,000 of which HK\$1,117,601,000 are short-term bank loans classified as current liabilities. Bank loans totalling HK\$94,141,000 were reclassified from non-current liabilities to current liabilities as at 30 June 2015. Management of the Group has discussed the repayment schedule with the relevant banks and does not expect the banks will request the Group to repay earlier than the scheduled repayment dates.

(b) Other items

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Provision for/(reversal of) impairment losses		
on trade and other receivables	14,886	(23,986)
Amortisation of lease prepayments	40,918	43,799
Amortisation of an intangible asset	6,194	–
Depreciation	231,724	267,987
Impairment losses on property, plant and equipment (<i>note</i>)	34,163	–

Note: During the six months ended 30 June 2015, the Group assessed the recoverable amounts of certain assets under transportation vehicles and as a result the carrying amounts of these assets were written down to their recoverable amounts of HK\$64,594,000. An impairment loss of HK\$34,163,000 was recognised in administrative and other operating expenses. The estimates of recoverable amounts were based on these assets' fair values less costs of disposal, using market comparison approach by reference to recent quotations or sales prices of comparable assets. The fair values on which the recoverable amounts are based on are categorised as a Level 3 measurement.

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Current tax expense	8,559	3,383
Deferred tax	(2,006)	6,772
	6,553	10,155

- (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 2015 and 2014.
- (c) Pursuant to the income tax rules and regulations of 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 2015 and 2014, 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 2015 and 2014.

- (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 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 2015 was -0.9% (six months ended 30 June 2014: 38.7%).

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of HK\$723,991,000 (six months ended 30 June 2014: a profit of HK\$16,052,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2014: 1,822,756,000).

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share equals to basic (loss)/earnings per share for the six months ended 30 June 2015 and 2014 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 end of the reporting period are analysed as follows:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Trade receivables		
– Within 30 days	289,009	365,499
– 31 days to 90 days	132,847	167,953
– 91 days to 180 days	56,516	122,568
– Over 180 days	214,996	128,626
	693,368	784,646
Less: Provision for impairment of trade receivables	(28,367)	(11,654)
Total trade receivables, net of impairment losses	665,001	772,992
Bills receivable	24,518	16,045
Value-added tax (“VAT”) recoverable	1,958,107	1,863,210
Deposits and prepayments	125,751	96,851
Receivables arising from the disposal of subsidiaries	627,847	622,284
Others	45,553	290,722
	3,446,777	3,662,104

In 2014, the Group disposed of its entire equity interest of a wholly owned subsidiary in chilled and frozen meat segment to Nanjing Runlong Business Investment Management Limited* (“Nanjing Runlong”) 南京潤隆商業投資管理有限公司 which is indirectly owned as to 29% by Mr. Zhu Yicai. The Group signed a supplementary agreement with Nanjing Runlong to extend the due date of the final payment for the sale of Nanjing Runlong of HK\$622,521,000 to December 2015.

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

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

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 end of the reporting period are analysed as follows:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Trade payables		
– Within 30 days	488,025	865,231
– 31 days to 90 days	157,936	116,786
– 91 days to 180 days	30,621	26,350
– Over 180 days	72,269	73,842
Total trade payables	748,851	1,082,209
Receipts in advance	217,479	280,486
Deposits from customers	125,702	138,082
Salary and welfare payables	88,248	94,334
VAT payable	5,891	4,393
Payables for acquisitions of property, plant and equipment	546,789	663,537
Other payables and accruals	525,380	443,290
	2,258,340	2,706,331

10 DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: HK\$Nil).

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Review Period (2014: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

During the six months ended 30 June 2015, China's national economy performed reasonably and major indicators remained stable and upward. According to the data published by the National Bureau of Statistics of China, China's gross domestic product ("GDP") for the first half of 2015 was RMB29,686.8 billion, representing an increase of 7.0% over the same period of 2014.

However, affected by the significant decline in consumption of high-end catering industry, the current meat consumption in China was primarily driven by the basic consumption. Nevertheless, during the Review Period, with the decreasing supply of commercial hogs, hog prices had soared since March this year and pork consumption was significantly affected thereby.

Facing all the unfavourable factors during the Review Period, the management of the Group adopted a more prudent strategy and continued to adhere to our belief to provide quality meat products for consumers against the backdrop of the challenging market environment.

Business Review

During the Review Period, the economy underwent restructuring while the high-end catering and meat markets remained sluggish under the increasingly competitive business environment. In the meantime, since both hog prices and production costs increased as compared with those of the same period last year and the Group experienced greater difficulty in transferring cost to consumers, the gross profit declined significantly. Facing all these enormous challenges, the Group made its best efforts to adopt a number of prudent actions and all feasible measures to improve its communication with customers, to implement the relevant national policies in prevention of food safety risks, to actively expand its catering chain and exclusive supply points, to improve its product innovation and technology research and development, to develop diversified products, to adjust its expansion pace and scale, to stabilise and grow its business.

Product Quality and Research and Development

During the Review Period, under the leadership of the Group's management, Yurun Food adhered to the operation philosophy of "you trust because we care", leading the industry development by technical research and development, and guaranteeing product quality through advanced production process and technology. Yurun Food ranked top in terms of market shares of low temperature meat products ("LTMP") and chilled pork in China, and successively topped the LTMP and chilled pork market in China in terms of market shares for the past consecutive seventeen years and three years respectively in the Annual Conference of the Development of Consumer Markets and the Release of Product Sales Statistics of the PRC Market (中國消費市場發展年會暨商品銷售統計新聞發佈會) held in April 2015. The Group will continue to ensure high product quality, and 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, remained the focus of the overall business development of the Group during the Review Period. During the Review Period, sales of chilled pork of the Group was HK\$6.953 billion (1H2014: HK\$7.125 billion), representing a decrease of 2.4% over the same period last year, accounting for approximately 71% of the total turnover of the Group prior to inter-segment eliminations (1H2014: 74%) and approximately 82% of the total turnover of the upstream slaughtering segment (1H2014: 87%). Sales of LTMP was HK\$1.201 billion (1H2014: HK\$1.303 billion), representing a decrease of 7.8% over the same period last year, accounting for approximately 12% of the total turnover of the Group prior to inter-segment eliminations (1H2014: 14%) and approximately 92% of the total turnover of the downstream processed meat segment (1H2014: 91%).

Production Facilities and Production Capacity

Adhering to the strict cost control on investment, the Group adjusted its expansion pace according to the market changes and business conditions of the Group. The Group will review the functions and positioning of each of our factories and optimise our existing resources, for example by consolidating those networks which are not close to raw materials markets or consumer markets, to fully capitalise the advantages of our factories with the hope of enhancing the utilisation rate in the long run.

In respect to its upstream slaughtering segment, under the management's adjustment in expansion pace, no new plant of the Group commenced production during the six months ended 30 June 2015. Upstream slaughtering capacity was 56.35 million heads per year, remaining unchanged as compared with that as at 31 December 2014.

As of 30 June 2015, 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 2014.

Financial Review

During the Review Period, the Group recorded a turnover of HK\$9.584 billion, representing an increase of 6.0% as compared with HK\$9.044 billion of the same period last year. During the Review Period, loss attributable to equity holders was HK\$724 million (1H2014: profit attributable to equity holders: HK\$16.05 million). Diluted loss per share was HK\$0.397 (1H2014: diluted earnings per share: HK\$0.009).

Revenue

Chilled and Frozen Pork

During the Review Period, the slaughtering volume of the Group decreased by approximately 3.4% over that of last year mainly because the Group positioned improvements in profitability as its objective and made appropriate compromise to the growth of slaughtering volume in light of the decrease in overall pork consumption. During the Review Period, total sales derived from upstream business (before inter-segment eliminations) increased by 3.9% to HK\$8.470 billion (1H2014: HK\$8.150 billion) as compared with the same period last year mainly due to increase in hog prices, of which, sales of chilled pork decreased by 2.4% to HK\$6.953 billion (1H2014: HK\$7.125 billion), as compared with the same period last year accounting for approximately 71% (1H2014: 74%) and approximately 82% (1H2014: 87%) 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 increased by 47.9% to HK\$1.517 billion (1H2014: HK\$1.025 billion) as compared with the same period last year, accounting for approximately 18% of the total turnover of the upstream business (1H2014: 13%).

Processed Meat Products

During the Review Period, sales of processed meat products (before inter-segment eliminations) of the Group was HK\$1.312 billion (1H2014: HK\$1.426 billion), representing a decrease of 8.0% over the same period last year.

Specifically, turnover of LTMP was HK\$1.201 billion, representing a decrease of 7.8% as compared with HK\$1.303 billion of the same period last year. LTMP remained the key revenue driver to the processed meat business, accounting for approximately 92% (1H2014: 91%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK\$111 million (1H2014: HK\$123 million), accounting for approximately 8% (1H2014: 9%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by 61.8% from HK\$669 million in the first half of 2014 to HK\$255 million during the Review Period. Overall gross profit margin decreased by 4.7 percentage points to 2.7% from 7.4% of the same period last year. During the Review Period, since both hog prices and production costs increased and the Group experienced greater difficulty in transferring costs to consumers, the gross profit significantly declined.

With respect to the upstream business, gross profit margin of chilled pork and frozen pork were 3.8% and -13.6% respectively (1H2014: 6.4% and -4.2% respectively). The overall gross profit margin of the upstream segment was 0.7%, representing a decrease of 4.4 percentage points as compared with 5.1% over the same period last year.

With respect to the downstream processed meat products, gross profit margin of LTMP was 14.8%, representing a decrease of 3.1 percentage points as compared with 17.9% of the same period last year. Gross profit margin of HTMP was 13.7%, representing a decrease of 3.8 percentage points over same period last year. Overall gross profit margin of the downstream segment was 14.7%, representing a decrease of 3.2 percentage points as compared with 17.9% of the same period last year.

Other Net Income

During the Review Period, other net income mainly included government subsidies and cold storage rental income, deducted by loss on disposal of lease prepayment and property, plant and equipment and disposal of a subsidiary. During the Review Period, other net income of the Group was HK\$50.48 million, representing a decrease of HK\$222 million as compared with HK\$272 million of same period last year. The decrease in other net income was mainly because of the substantial decrease in government subsidies and loss on disposal of lease prepayment and property, plant and equipment and a subsidiary 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\$881 million, representing an increase of 11.1% as compared with HK\$793 million of the same period last year. Such increase was mainly due to increase in transportation expenses, increase in provision for impairment losses on trade and other receivables and impairment losses on certain fixed assets in an amount of approximately HK\$34 million during the Review Period. Operating expenses represented 9.2% of the Group's turnover, an increase of 0.4 percentage point as compared with 8.8% of the same period last year.

Results of operating activities

During the Review Period, operating loss of the Group was HK\$575 million (1H2014: profit: HK\$148 million).

Finance Costs

During the Review Period, net finance costs of the Group were HK\$142 million as compared with HK\$119 million of the same period last year. Net finance costs increased mainly because of the increase in interest expense on borrowings due to increased average bank and other borrowings during the Review Period.

Income Tax

The income tax for the Review Period was HK\$6.55 million, representing a decrease of 35.5% as compared with HK\$10.16 million of the same period last year. The decrease was due to the decrease in taxable profit of the meat processing operations during the Review Period.

Loss Attributable to Equity Holders of the Company

Taking all of the above factors into account, loss attributable to equity holders of the Company during the Review Period was HK\$724 million (1H2014: profit attributable to equity holders of the Company: HK\$16.05 million).

Financial Resources

As at 30 June 2015, the Group's cash balance together with time deposits and pledged deposits were HK\$1.124 billion which was similar to HK\$1.124 billion as at 31 December 2014, approximately 97% (31 December 2014: 98%) of which was denominated in Hong Kong dollars or RMB.

As at 30 June 2015, the Group had outstanding bank loans of HK\$8.431 billion (including the domestic medium term notes (the "MTN") and the short term financing notes issued in the PRC by Nanjing Yurun Food Co., Ltd, a wholly-owned subsidiary of the Company), representing an increase of HK\$321 million from HK\$8.110 billion as at 31 December 2014, of which, HK\$3.887 billion, HK\$2.912 billion and HK\$634 million (31 December 2014: HK\$3.819 billion, HK\$1.645 billion and Nil) were bank loans, the MTN and the short term financing notes respectively which are repayable within one year, and bank loans which are due within one year are expected to be renewed upon maturity. All of our borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2014. The fixed rate debt ratio of the Group increased to 74.4% as at 30 June 2015 (31 December 2014: 65.9%). 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 reasonable amount of unutilised credit facilities, the Group has adequate funds for daily operating activities and other funding requirements.

Under the principle of stringent control over investment costs, the capital expenditure of the Group decreased by 24.7% to HK\$383 million during the Review Period as compared with HK\$510 million of same period last year.

Assets and Liabilities

As at 30 June 2015, the total assets and total liabilities of the Group were HK\$26.097 billion (31 December 2014: HK\$26.947 billion) and HK\$10.873 billion (31 December 2014: HK\$11.000 billion) respectively, representing a decrease of HK\$850 million and HK\$126 million as compared with the total assets and liabilities as at 31 December 2014 respectively.

As at 30 June 2015, the property, plant and equipment of the Group amounted to HK\$16.627 billion (31 December 2014: HK\$16.541 billion), representing a slight increase of 0.5% as compared with that as at 31 December 2014.

Lease prepayments of the Group as at 30 June 2015 amounted to HK\$3.592 billion (31 December 2014: HK\$3.690 billion). This represented the purchase cost of land use rights which was amortised on a straight-line basis over the respective periods of the rights. Land use rights of two pieces of land of the Group were disposed during the Review Period, as a result, the lease prepayments of the Group as at 30 June 2015 decreased by 2.7% as compared with that as at 31 December 2014.

Non-current prepayments and receivables of the Group mainly represented the prepayments for acquisition of land use rights and property, plant and equipment and amounted to HK\$231 million as at 30 June 2015 (31 December 2014: HK\$306 million). These assets have not started to depreciate nor amortise yet.

As at 30 June 2015, the Group had net current liabilities of approximately HK\$4.151 billion (31 December 2014: HK\$1.821 billion). In March 2015, a wholly-owned subsidiary of Group obtained an approval from the National Association of Financial Market Institutional Investors to issue short term financing notes of an aggregate principal amount of up to RMB1.8 billion with a term of 366 days from the date of issuance and private placement notes of an aggregate principal amount up to RMB2.5 billion with a term of 3 years from the date of issuance. The total unutilised portion up to the date of the interim financial report amounted to RMB3.8 billion. In addition, the current bank loans which are due within one year are expected to be renewed upon maturity, therefore the directors believe that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when due within the next twelve months from the end of the reporting period.

As at 30 June 2015, equity attributable to equity holders of the Company was HK\$15.169 billion, representing a decrease of HK\$723 million as compared with HK\$15.892 billion as at 31 December 2014.

As at 30 June 2015, the gearing ratio (total debt represented by the sum of bank loans, the MTN, the short term financing notes and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 36.1%, representing an increase of 1.9 percentage points as compared with 34.2% as at 31 December 2014. As at 30 June 2015, after excluding cash in bank, time deposits and pledged deposits, the net gearing ratio was 31.4% (31 December 2014: 29.5%).

Charges on Assets

As at 30 June 2015, certain properties and construction in progress of the Group with a carrying amount of HK\$377 million and lease prepayments of the Group with a carrying amount of HK\$481 million (31 December 2014: HK\$540 million and HK\$506 million respectively) were pledged against certain bank loans with a total amount of HK\$1.387 billion (31 December 2014: HK\$1.601 billion).

As at 30 June 2015, certain secured bank loans of the Group amounted to HK\$88.21 million (31 December 2014: HK\$407 million) which were secured by pledged deposits denominated in RMB amounting to HK\$91.94 million (31 December 2014: HK\$165 million). As at 30 June 2015, no bank loans were secured by available-for-sale financial asset (31 December 2014: HK\$101 million).

As at 30 June 2015, bills payable were secured by RMB denominated pledged deposits of HK\$115 million (31 December 2014: HK\$63 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 2015.

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 2015, the Group had approximately 16,000 (31 December 2014: approximately 19,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK\$432 million, accounting for 4.5% of the turnover of the Group (1H2014: HK\$445 million, accounting for 4.9% 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 minimise the environmental impact of its existing production and business activities. During the Review Period, the Group continues to implement measures to reduce waste generation during its production process. In future, the Group aims at improving those measures to minimise 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 seven 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 paragraph A.6.7 of the CG Code as Li Qing, an independent non-executive director, was absent from the annual general meeting of the Company held on 24 June 2015 for 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 2015 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, 10 August 2015

As at the date of this announcement, the executive directors of the Company are Yu Zhangli, Li Shibao, Ge Yuqi and Sun Tiexin; the independent non-executive directors are Gao Hui, Chen Jianguo and Li Qing.