



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



Prestigious Products
Premium Brands

Interim Report 2006



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Corporate Information

Board of Directors

Executive Directors

Zhu Yicai (Chairman)
 Bi Guoxiang (Chief Executive Officer)
 Zhang Yuanfei
 Zhu Yiliang
 Feng Kuande
 Ge Yuqi

Non-executive Directors

Jiao Shuge (alias Jiao Zhen)
 Liu Yi Lan, Katherine

Independent Non-executive Directors

Zheng Xueyi
 Kang Woon
 Gao Hui

Company Secretary & Qualified Accountant

Lee Wing Sze, Rosa CPA, FCCA

Registered Office

Clarendon House
 2 Church Street
 Hamilton, HM11
 Bermuda

Head Office

17 Yurun Road
 Jianye District
 Nanjing
 The People's Republic of China

Principal Place of Business in Hong Kong

Room 2102A
 Tower Two
 Lippo Centre
 89 Queensway
 Hong Kong

Auditors

KPMG

Legal Advisors

As to Hong Kong Law
 Norton Rose
 As to PRC Law
 King & Wood PRC Lawyers
 As to Bermuda law
 Conyers Dill & Pearman

Principal Bankers

Bank of China Limited
 Bank of Communications Co., Ltd.
 China Merchants Bank Co., Ltd.

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
 Rosebank Centre
 11 Bermudiana Road
 Pembroke HM08
 Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
 26th Floor, Tesbury Centre
 28 Queen's Road East
 Hong Kong

Stock Code

1068

Website

www.yurun.com.hk

Financial Highlights

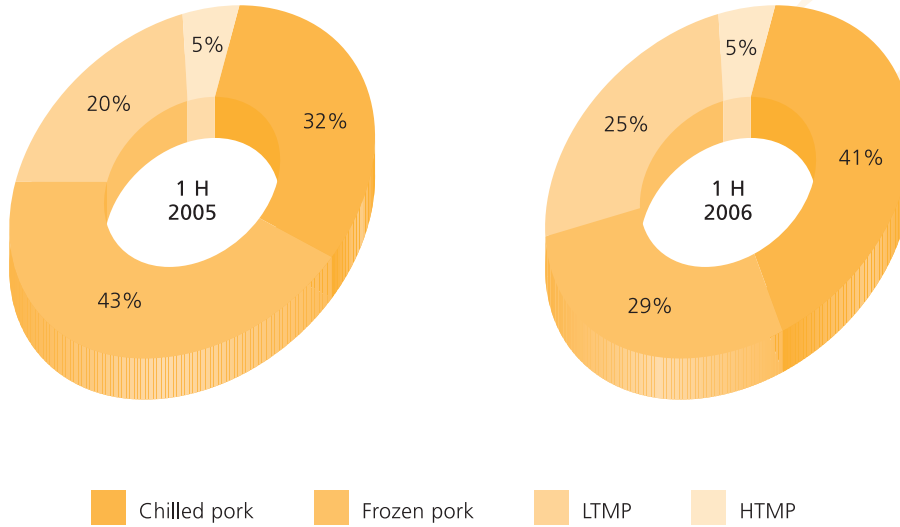
	For the six months ended 30 June		Change
	2006	2005	
	RMB in million (Unaudited)	RMB in million (Unaudited)	
Turnover	2,081	2,194	-5.2%
Gross profit	354	304	16.3%
Profit attributable to shareholders	254	171	48.6%
Diluted earnings per share (<i>RMB</i>)	0.175	0.176	-0.6%
Gross profit margin	17.0%	13.9%	3.1 percentage points
Net profit margin	12.2%	7.8%	4.4 percentage points

- The Group had revenues of RMB2.081 billion in the first half of 2006, a decrease of 5.2% compared with RMB2.194 billion in the same period last year. It was mainly due to the rapid decrease in hog prices during the period, which carried over into decreased prices for chilled and frozen pork. Although sales volume increased, it was insufficient to offset the negative effect of declining hog prices.
- Gross profit during the first half of 2006 increased by RMB50 million or 16.3% compared with the same period last year. This demonstrates the Group's ability to maintain sustainable profit growth despite declining hog prices.
- The Group had net profit of RMB254 million in the first half of 2006, an increase of RMB83 million or 48.6%* compared with the same period in 2005. This was due to increases in gross profit and other operating income, as well as a decrease in financial expenses.

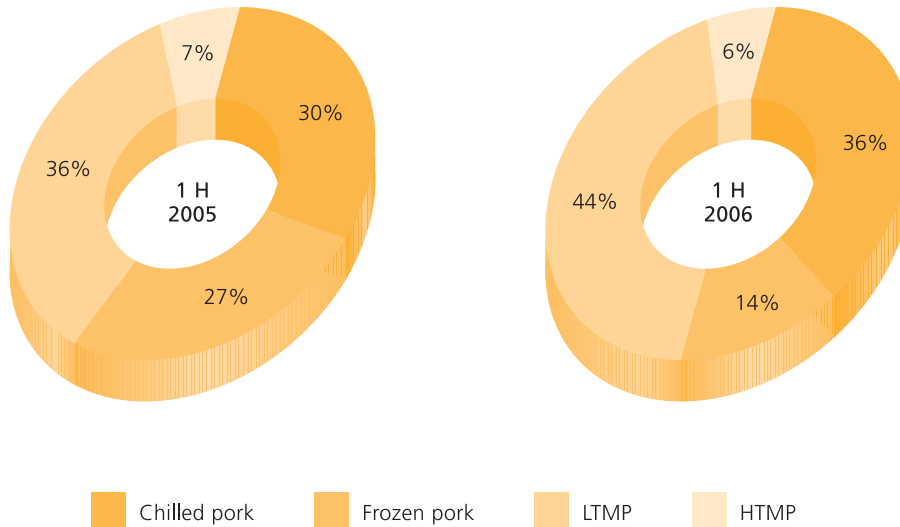
* The increase in net profit would be 25.3% compared with the same period last year if the negative goodwill of RMB40 million (first half of 2005: Nil) recognised as other operating income during the period was excluded from the calculation.

Financial Highlights

Contribution to Turnover by Product Lines (including internal sales)



Contribution to Gross Profit by Product Lines (including internal sales)



Consolidated Income Statement

For the six months ended 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2006 RMB'000	2005 RMB'000
Turnover	2	2,081,006	2,194,224
Cost of sales		(1,727,016)	(1,889,789)
Gross profit		353,990	304,435
Other operating income	5	47,435	16,959
Distribution expenses		(103,897)	(82,462)
Administrative and other operating expenses		(44,138)	(33,091)
Operating profit before net financing costs		253,390	205,841
Financial income		10,881	367
Financial expenses		(7,513)	(31,073)
Net financing income/(costs)	6(a)	3,368	(30,706)
Share of profits less losses of an associate		(692)	—
Profit before tax	6	256,066	175,135
Income tax expense	7	(1,819)	(3,979)
Profit for the period		254,247	171,156
Attributable to:			
Equity holders of the parent		254,390	171,156
Minority interests		(143)	—
Profit for the period		254,247	171,156
Earnings per share			
Basic (RMB)	9(a)	0.175	0.187
Diluted (RMB)	9(b)	0.175	0.176

The notes on pages 8 to 20 form part of this interim financial report.

Consolidated Balance Sheet

As at 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	30 June 2006 RMB'000	31 December 2005 RMB'000
Non-current assets			
Property, plant and equipment	10	691,089	587,565
Lease prepayments		23,779	767
Investment in an associate		4,563	5,255
Deferred tax assets		20,068	19,292
		739,499	612,879
Current assets			
Inventories		463,547	417,149
Trade and other receivables	11	527,139	447,731
Pledged deposits		8,067	23,364
Cash and cash equivalents	12	1,284,008	1,355,536
		2,282,761	2,243,780
Current liabilities			
Bank loan		20,000	20,000
Finance lease liabilities		672	887
Trade and other payables	13	348,092	301,511
Income tax payable		3,990	3,002
		372,754	325,400
Net current assets		1,910,007	1,918,380
Total assets less current liabilities		2,649,506	2,531,259
Non-current liabilities			
Finance lease liabilities		264,861	288,404
Deferred tax liabilities		1,195	1,195
		266,056	289,599
Net assets		2,383,450	2,241,660
Equity			
Share capital		151,003	151,003
Reserves		1,732,490	1,760,377
Retained earnings		486,518	330,280
Total equity attributable to equity holders of the parent		2,370,011	2,241,660
Minority interests		13,439	—
Total equity		2,383,450	2,241,660

Approved and authorised for issue by the board of directors on 6 September 2006.

Zhu Yicai
Director

Zhang Yuanfei
Director

The notes on pages 8 to 20 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006 – unaudited
(Expressed in Renminbi)

	Attributable to equity holders of the parent											
	Note	Share	Share	Capital	Merger	Convertible	PRC	Exchange	Retained	Total	Minority	Total
		capital	premium	surplus	reserve	instruments	statutory	reserve	earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005		244,490	—	52,409	—	128,471	38,930	—	190,974	655,274	—	655,274
Capital injection		182,621	—	—	—	—	—	—	—	182,621	—	182,621
Arising on reorganisation		(282,490)	—	(48,269)	560,395	—	(39,497)	—	(178,522)	11,617	—	11,617
Profit for the period		—	—	—	—	—	—	—	171,156	171,156	—	171,156
Transfer to reserves		—	—	—	—	—	18,346	—	(18,346)	—	—	—
Deemed appropriation to equity owners		—	—	—	(540,643)	—	—	—	—	(540,643)	—	(540,643)
At 30 June 2005		144,621	—	4,140	19,752	128,471	17,779	—	165,262	480,025	—	480,025
At 1 January 2006		151,003	1,693,758	4,140	19,752	—	40,602	2,125	330,280	2,241,660	—	2,241,660
Arising on acquisition of a Predecessor Entity	15(f)	—	—	—	(33,469)	—	6,487	—	—	(26,982)	—	(26,982)
Arising on business combinations	4	—	—	—	—	—	—	—	—	—	13,582	13,582
Foreign currency translation		—	—	—	—	—	—	(905)	—	(905)	—	(905)
Profit for the period		—	—	—	—	—	—	—	254,390	254,390	(143)	254,247
Dividends approved and paid during the period	8(b)	—	—	—	—	—	—	—	(98,152)	(98,152)	—	(98,152)
At 30 June 2006		151,003	1,693,758	4,140	(13,717)	—	47,089	1,220	486,518	2,370,011	13,439	2,383,450

The notes on pages 8 to 20 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2006 RMB'000	2005 RMB'000
Cash generated from operations		158,952	206,751
Tax paid		(1,607)	(22,911)
Net cash from operating activities		157,345	183,840
Net cash used in investing activities		(122,624)	(1,016,562)
Net cash (used in)/from financing activities		(105,344)	726,369
Net decrease in cash and cash equivalents		(70,623)	(106,353)
Cash and cash equivalents at 1 January	12	1,355,536	250,566
Effect of foreign exchange rate changes		(905)	—
Cash and cash equivalents at 30 June	12	1,284,008	144,213

The notes on pages 8 to 20 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

China Yurun Food Group Limited (the “Company”) was incorporated in Bermuda on 21 March 2005 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

The consolidated interim financial report of the Company as at and for the six months ended 30 June 2006 comprises the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s investment in an associate.

1. REORGANISATION AND BASIS OF PREPARATION

(a) Reorganisation

Pursuant to a reorganisation (the “Reorganisation”) of the Group completed on 10 September 2005 to rationalise the group structure in preparation for the public listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the business operations of slaughtering, production and sales of chilled and frozen pork, and processed meat products with relevant assets and liabilities of the entities under common control (collectively referred to as “Predecessor Entities”) were transferred to the companies now comprising the Group and the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 3 October 2005.

Details of the Reorganisation are set out in the prospectus dated 20 September 2005 issued by the Company.

(b) Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both periods presented, rather than from 10 September 2005. Accordingly, the consolidated results of the Group for the six months ended 30 June 2005 include the results of the Company and its subsidiaries with effect from 1 January 2005 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two periods presented. All material inter-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

(c) 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, including compliance with International Accounting Standard (“IAS”) 34, “Interim financial reporting” promulgated by the International Accounting Standards Board (“IASB”). It was authorised for issuance on 6 September 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

1. REORGANISATION AND BASIS OF PREPARATION (CONTINUED)

(c) Basis of preparation (continued)

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2005.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the board of directors is included on page 21.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2006.

2. SEGMENT REPORTING

The Group's primary format for reporting segment information is business segments.

The Group comprises the following main business segments:

- | | | |
|-------------------------|---|---|
| Chilled and frozen pork | : | The chilled and frozen pork segment carries on the business of pig slaughtering, production and sales of chilled and frozen pork. |
| Processed meat products | : | The processed meat products segment manufactures and distributes processed meat products, such as sausages and hams. |

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

2. SEGMENT REPORTING (CONTINUED)

Revenue from external customers represents sales value of goods sold to customers excludes value added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts.

	For the six months ended 30 June							
	Chilled and frozen pork		Processed meat products		Inter-segment elimination		Total	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Revenue from external customers	1,421,097	1,601,405	659,909	592,819	—	—	2,081,006	2,194,224
Inter-segment revenue	112,906	150,604	—	—	(112,906)	(150,604)	—	—
Segment revenue	1,534,003	1,752,009	659,909	592,819	(112,906)	(150,604)	2,081,006	2,194,224
Segment results	136,868	137,780	132,401	87,901	—	—	269,269	225,681
Unallocated income and expenses							(15,022)	(54,525)
Profit for the period							254,247	171,156

3. SEASONALITY OF OPERATIONS

The Group's operations are subject to seasonal fluctuations. Demand for processed meat products in general increases during the period immediately before the Chinese New Year in January or February each year and decreases thereafter.

4. BUSINESS COMBINATIONS

On 18 June 2006, the Group acquired a 75% equity interest of Henan Yurun Beixu Meat Food Company Limited* ("Yurun Beixu") from an independent third party at a cash consideration of RMB750,000. Details of Yurun Beixu at 30 June 2006 are as follows:

Name of company	Registered capital	Principal activities	Percentage of equity interest acquired	Results contributed by the company from the date of acquisition to 30 June 2006 RMB'000
Yurun Beixu 河南雨潤北徐肉類食品有限公司	RMB1,000,000	Slaughtering, production and sale of chilled and frozen pork	75%	(575)

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

This entity is a domestic company established in the PRC. The entity is newly set up and has not yet commenced production.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

4. BUSINESS COMBINATIONS (CONTINUED)

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition
	RMB'000
Property, plant and equipment (note 10)	43,039
Lease prepayments	10,289
Cash and cash equivalents	1,000
Net identifiable assets	54,328
Minority interests	(13,582)
Net identifiable assets acquired	40,746
Negative goodwill arising on acquisition (note 5)	(39,996)
Total purchase price paid, satisfied in cash	750
Cash acquired	(1,000)
Net cash inflow	(250)

Negative goodwill has arisen on the acquisition of Yurun Beixu as a result of bargain purchase.

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Government subsidies	600	13,250
Recognition of negative goodwill arising on business combinations (note 4)	39,996	—
Rental income	585	564
Others	6,254	3,145
	47,435	16,959

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
(a) Net financing (income)/costs:		
Interest on bank and other loans wholly repayable within five years	544	10,267
Bank charges	137	534
Bills discount expenses	—	9,040
Reimbursement of bills discount expenses from a related company	—	(9,032)
Amortisation of discounts and transaction cost of the convertible instruments	—	13,164
Interest on lease obligation	6,749	6,768
Foreign exchange loss	83	332
Interest income	(10,881)	(367)
	(3,368)	30,706

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
(b) Other items:		
Impairment losses on trade and other receivables	2,351	—
Depreciation	21,624	21,746
Operating lease charges		
— premises	257	288
— land use rights	1,093	950
(Gain)/loss on disposal of property, plant and equipment	(467)	190
Amortisation of lease prepayments	8	151

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Current tax expense	2,595	3,979
Deferred tax income	(776)	—
	1,819	3,979

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

7. INCOME TAX EXPENSE (CONTINUED)

- (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 2006.
- (c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a rate of 33% during the six months ended 30 June 2006 (30 June 2005: 33%), except for the following:
- (i) The companies comprising the Group which are foreign invested enterprises in the PRC are entitled to a tax concession period during which they are fully exempted from PRC enterprise income tax for two years starting from its first profit-making year, followed by a 50% reduction in the PRC enterprise income tax for the next three years.
- (ii) Pursuant to Xinzhengfa (2002) No. 29 and the investment agreement entered into with the Administration Committee of Xinjiang Shihezi Economic and Technological Development Zone (“新疆石河子市經濟技術開發區管委會”), Xinjiang Yurun Food Co., Ltd. (“Xinjiang Yurun”) is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for five years starting from its first profit-making year, followed by a reduced PRC enterprise income tax at 15% for the remaining years through 2010.

8. DIVIDENDS

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interim dividend proposed after the balance sheet date of HK\$0.042 (approximate to RMB0.044) per share (six months ended 30 June 2005: Nil)	63,421	—

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

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the following interim period, of HK\$0.065 (approximate to RMB0.068) per share (year ended 31 December 2004: Nil)	98,152	—

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

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 parent of RMB254,390,000 (six months ended 30 June 2005: RMB171,156,000) and the weighted average number of ordinary shares of 1,451,953,000 (2005: 915,000,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the parent of RMB254,390,000 (six months ended 30 June 2005: RMB184,320,000) and the weighted average number of ordinary shares of 1,451,953,000 (2005: 1,049,313,000).

10. PROPERTY, PLANT AND EQUIPMENT

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2006 are as follows:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Cost of acquisitions	82,437	29,927
Acquisitions through business combinations (note 4)	43,039	—
Acquisitions through finance lease (net carrying amount)	—	290,139
Deemed appropriation to equity owners of the Predecessor Entities (net carrying amount)	—	304,962
Disposals (net carrying amount)	328	505

11. TRADE AND OTHER RECEIVABLES

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

	30 June 2006 RMB'000	31 December 2005 RMB'000
	Within 30 days	218,589
31 days to 90 days	78,817	80,897
91 days to 180 days	26,584	24,227
Over 180 days	7,713	5,557
Total debtors and bills receivables, net of impairment loss	331,703	326,705
Value-added tax recoverable	77,380	72,391
Deposits and prepayments	111,303	29,500
Others	6,753	19,135
	527,139	447,731

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. As at 30 June 2006, amounts due from related companies of RMB1,623,000 (31 December 2005: RMB5,724,000) are included in trade receivables (note 15(c)).

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

12. CASH AND CASH EQUIVALENTS

	30 June 2006 RMB'000	31 December 2005 RMB'000
Cash and bank balances	1,284,008	1,355,536

13. TRADE AND OTHER PAYABLES

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

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within 30 days	109,455	91,064
31 days to 90 days	55,261	37,145
91 days to 180 days	11,789	6,702
Over 180 days	10,800	11,219
Total creditors and bills payables	187,305	146,130
Receipts in advance	45,672	44,714
Other payables and accruals	115,115	110,667
	348,092	301,511

As at 30 June 2006, amounts due to related companies of RMB2,035,000 (31 December 2005: RMB5,092,000) are included in trade payables (note 15(d)).

14. CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	30 June 2006 RMB'000	31 December 2005 RMB'000
Contracted for	109,459	70,750
Authorised but not contracted for	703,454	535,379
	812,913	606,129

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2006 and 2005, in addition to the transactions and balances disclosed elsewhere in this interim financial report, transactions with the following parties are considered as related party transactions.

Name of party

Anhui Xuerun Meat Product Co., Ltd. ("Anhui Xuerun")

安徽省雪潤肉食品有限公司

Anhui Enbi Protein Co., Ltd. ("Anhui Enbi")

安徽恩彼蛋白質有限公司

Anqing Furun Poultry Product Co., Ltd. ("Anqing Furun")

安慶福潤禽業食品有限公司

Nanjing Yurun Commercial Management Co., Ltd. ("Nanjing Yurun Commercial")

南京雨潤商業管理有限公司

Liaocheng Furun Poultry Product Co., Ltd. ("Liaocheng Furun")

聊城市福潤禽業食品有限公司

Guilin Furun Meat Processing Co., Ltd. ("Guilin Furun")

桂林福潤肉類食品有限公司

Hunan Lixian Furun Meat Food Co., Ltd. ("Lixian Furun")

湖南澧縣福潤肉類食品有限公司

Xinyu Furun Meat Food Co., Ltd. ("Xinyu Furun")

新餘福潤肉類食品有限公司

Itoham Foods Beijing Co., Ltd. ("Itoham")

伊藤食品(北京)有限公司

The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Mr. Zhu Yicai is a director and beneficial shareholder of the Company and also has beneficial interest in these related parties.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions — Recurring

- (i) Sales and purchases of raw materials and finished goods:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
<i>Sales of meat and by-product</i>		
Anhui Xuerun	10,298	2,952
Anhui Enbi	1,291	—
Total	11,589	2,952
<i>Sales of raw materials</i>		
Anhui Xuerun	1,888	3,582
Anhui Enbi	8	—
Total	1,896	3,582
<i>Purchases of raw materials</i>		
Anqing Furun	1,079	2,714
Liaocheng Furun	810	3,208
Total	1,889	5,922
<i>Purchases of finished goods</i>		
Anhui Xuerun	29,109	23,852

- (ii) Leases of property, plant and equipment and land use rights

The rentals for certain property, plant and equipment and land use rights owned by the Predecessor Entities for the six months ended 30 June 2006 amounted to RMB7,815,000 (six months ended 30 June 2005: RMB7,815,000).

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party transactions — Non-recurring

Particulars of significant transactions between the Group and the related parties during the six months ended 30 June 2006 are as follows:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
<i>Sales of meat and by-product</i>		
Nanjing Yurun Commercial	—	10,635
Others	—	1,110
Total	—	11,745
<i>Sales of raw materials</i>		
Nanjing Yurun Commercial	—	12
Others	—	226
Total	—	238
<i>Purchases of raw materials</i>		
Anhui Xuerun	—	433
Guilin Furun	—	6,703
Lixian Furun	—	2,437
Xinyu Furun	—	3,664
Others	—	64
Total	—	13,301

(c) Amounts due from related companies

	30 June	31 December
	2006	2005
	RMB'000	RMB'000
Anhui Enbi	4	—
Anhui Xuerun	1,235	5,260
Itoham	384	464
Total	1,623	5,724

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Amounts due to related companies

	30 June 2006 RMB'000	31 December 2005 RMB'000
Anhui Enbi	561	684
Anhui Xuerun	1,474	3,561
Anqing Furun	—	429
Liaocheng Furun	—	418
Total	2,035	5,092

(e) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	1,961	1,411
Contribution to retirement benefit schemes	29	19
Total	1,990	1,430

(f) Acquisition of a Predecessor Entity

On 27 June 2006, the Group acquired a Predecessor Entity, Anhui Furun Meat Processing Co., Ltd.* ("Anhui Furun") (安徽省福潤肉類加工有限公司) at a cash consideration of RMB67,410,000. Anhui Furun's net assets at the acquisition date were as follows:

	Pre-acquisition carrying amounts RMB'000
Lease prepayments	13,883
Finance lease receivables	23,315
Other net assets	3,230
	40,428

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Acquisition of a Predecessor Entity (continued)

The properties and land use right owned by Anhui Furun were leased to the Group under finance lease and operating lease respectively. Accordingly, the Group's finance lease liabilities amounted to RMB23,315,000 were derecognised at the date of acquisition. The excess of the consideration over the carrying amounts of the acquired net assets was recorded in the merger reserve.

16. NON-ADJUSTING POST-BALANCE SHEET EVENT

On 18 April 2006, the Group entered into an acquisition agreement with Shandong Province Shanghe County Economic and Trade Commission (山東省商河縣經濟貿易局), an independent third party, to acquire the business operations of slaughtering, production and sale of chilled and frozen pork together with the relevant assets and liabilities of Huaxin Food Factory (華信食品廠) at a consideration of RMB100,000. The transfer of assets and liabilities is still in progress and it is expected that the transfer procedures will be completed by the end of year 2006.

17. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2006

Up to the date of issue of this interim financial report, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006:

	Effective for accounting periods beginning on or after
IFRIC 7, Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economics	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006
IFRIC 9, Reassessment of embedded derivatives	1 June 2006
IFRS 7, Financial instruments: Disclosures	1 January 2007
Amendment to IAS 1, Presentation of financial statements: "Capital disclosures"	1 January 2007
Revised guidance on implementing IFRS 4, Insurance contracts	1 January 2007

The above amendments, new standards and interpretations were not applied in this interim financial report because the directors expect the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2006.

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Independent Review Report

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA YURUN FOOD GROUP LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 4 to 20.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, "Interim financial reporting" promulgated by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certificate Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG

Certified Public Accountants

Hong Kong, 6 September 2006

Management Discussion and Analysis

INDUSTRY REVIEW

In 2005, a series of emergency public health incidents imposed negative impacts on the Chinese meat processing industry. These included an outbreak of cattle foot and mouth disease in May, streptococcus suis in pigs during June to August, and avian flu in late October. Entering into 2006, thanks to the more stringent regulations by the central government, industry's self-regulation and increasing consumer awareness of food hygiene and food safety, industrialised large-scale producers with leading brands are winning greater consumer preference despite continued avian flu influence.

Hog prices continued to decrease in the first half of this year following the decline in 2005. As a result of continued increase in feed stock price and shrinking hog supply, hog purchasing prices showed the early signs to bottom out in July. With its proven strategies on marketing, product development and cost control, the Group managed to attain stable profit margins against the backdrop of decreasing hog prices in recent years.

BUSINESS REVIEW

2006 is the first financial year after the Group's listing on the Stock Exchange. In the first half of this year, the Group stepped up its efforts on new product development, market expansion and marketing initiatives, and managed to maintain steady increases in its profit margins with the rapid growth in chilled pork and low temperature meat products ("LTMP") businesses. This further enhanced the Group's mid-to-long term competitive edge, while laying solid foundations for sustainable growth.

Sales and Distribution

During the first half of 2006, there was robust growth in sales and distribution. The Group further expanded its sales in chilled pork and LTMP, taking advantage of the consumers' increasing preference on hygienic, tasty and healthy middle and high-end products. During the period under review, sales of chilled pork achieved RMB906 million, representing an increase of 19.6% compared with the corresponding period of last year. This represented 41.3% (first half of 2005: 32.3%) of the Group's total sales (before inter-segment elimination) or 59.0% (first half of 2005: 43.2%) of total upstream sales. Sales of LTMP for the period reached RMB556 million, representing an increase of 15.9% year on year. This represented 25.4% (first half of 2005: 20.5%) of the Group's total sales (before inter-segment elimination) or 84.3% (first half of 2005: 81.0%) of total downstream sales.

During the period under review, the Group continued to expand its product portfolio by developing high-end products with higher gross margins. The Group also committed to enhancing its marketing effort as well as expanding product distribution networks. During the reporting period, the Group expanded sales in fast growing small to medium cities, particularly in Northern and Northeast China. The Group also started selling its "Yurun" brand products in major supermarkets chains in Hong Kong with encouraging performance. In order to further rationalise brand system, we started to consolidate our chilled pork products under our flagship "Yurun" brand. We further strengthened our branding strategy through selectively increased investments in high return TV and mobile media channels to strengthen our influence in medium to high-end markets.

Management Discussion and Analysis

Production Facilities and Production Capacity

The Group takes efforts to expand its upstream production capacity through a combination of flexible measures, such as acquisition and brown field as well as green field projects to meet the growing market demand. Through the acquisition of Henan Yurun Beixu Meat Products Company Limited (河南雨潤北徐肉類食品有限公司) (“Yurun Beixu”) in Henan Province, the Group’s slaughtering capacity increased by 500,000 heads per year. The acquisition has enabled the Group to extend its geographical coverage to central China, including major cities such as Wuhan and Zhengzhou. Located in Henan province, Yurun Beixu has excellent access to stable and low-price hog supply. As of 30 June 2006, the Group’s annual slaughtering capacity approximated 8.86 million heads, representing an increase of approximately 1.01 million heads since the end of 2005.

In the downstream, the Group has been focusing on supplementing market coverage, de-bottlenecking and upgrading key facilities in certain areas. Production capacity of our downstream meat processing business increased from 163,000 tons per year at the end of 2005 to 168,000 tons per year as of 30 June 2006. The increase was mainly due to the completion of a new production facility in Xinjiang and partial upgrading of production capacities in Nanjing during the period.

Against a backdrop of increased geographical coverage and rapid sales growth, the Group was able to maintain a rather stable utilization rate despite continued production capacity expansion. The weighted average utilization rates were 68% for the upstream slaughtering businesses and 55% for the downstream meat processing businesses during the first half of 2006. Chilled pork and LTMP were the main drivers for the upstream business and downstream business respectively. The Group is confident that it can satisfy the market demand for the Group’s products by further expanding our production capacity.

Product Quality and R&D

The Group places high priority on quality management to guarantee the quality, hygiene and taste of our products. During the period under review, the Group continued to implement its strategy of focusing on the development of middle and high-end products. We launched a number of new products in each major product line, such as “Maple Roasted Pork” (楓香烤肉), “Supreme Smoked Ham-steak” (精選火腿排) and “Hot Pot Sausage” (火鍋脆脆腸) in the LTMP. These new products proved to be competitive as they well met customers’ changing dietary requirement and were therefore very positively received by the market.

FINANCIAL REVIEW

As a result of a substantial decrease in hog prices during the period and our market-based pricing strategy particularly in the upstream, the Group’s turnover slightly declined by 5.2%, from RMB2.194 billion in the first half of 2005 to RMB2.081 billion in the first half of 2006. Our net profit, however, increased by 48.6% to RMB254 million, up from RMB171 million in the same period of the preceding year. Diluted earnings per share were RMB0.175 (first half of 2005: RMB0.176).

Management Discussion and Analysis

Turnover

Chilled and Frozen Pork

For the period ended 30 June 2006, the Group sold approximately 210,000 tons of chilled and frozen pork, representing an increase of approximately 18.6% compared with the same period last year. However, turnover (before inter-segment elimination) declined by 12.4% to RMB1.534 billion year on year, primarily due to declining hog purchasing prices during the period.

Processed Meat Products

For the period ended 30 June 2006, the Group's sales of processed meat products achieved RMB660 million, representing an increase of 11.3% compared to the same period of the preceding year, primarily due to an increase in sales volume and an increase in average realised sales price for LTMP as a result of the introduction of high value-added new products during the period.

Gross Profit and Gross Profit Margin

During the period, the Group's gross profit increased by 16.3% from RMB304 million in the first half of 2005 to RMB354 million in the first half of 2006, demonstrating the Group's ability to maintain sustainable profit growth despite declining hog prices and corresponding turnover.

The Group's overall gross profit margin during the period was 17.0% (first half of 2005: 13.9%). The increase was due to the Group's focus on sales of high margin chilled pork and LTMP and reduced cost of sales for the downstream processed meat business as a result of decline in hog prices during the period.

In the upstream slaughtering business, the gross profit margin for chilled pork was 14.0%, representing an increase of 1.8 percentage points compared with the same period of the preceding year. The gross profit margin for frozen pork was 7.9%, a slight decline of 0.4 percentage point compared to the first half of 2005. The increase in gross profit margin of the Group's chilled pork business is attributable to more cash purchases of hogs, which reduced the general purchase cost. At the same time, as the Group's pricing capacity was enhanced and the popularity of chilled pork products among Chinese consumers continued to increase, the decline of chilled pork price in the period under review was less than the reduction in our hog purchasing prices, contributing to a rise in gross profit margin. On the other hand, the retail price of frozen meat products experienced a substantial drop which led to a slight decrease in gross profit margin for the frozen pork business.

In the downstream processed meat business, gross profit margin for LTMP during the period was 27.4%, an increase of 4.8 percentage points from the same period of previous year. This increase was mainly due to a drop in the price of raw materials and a greater proportion of high-end products launched. During the period under review, the average realised retail price of LTMP increased despite declining hog purchasing prices. Coupled a reduction in material costs, the Group's LTMP business achieved a substantial improvement in gross profit margin. The gross profit margin for high temperature meat products ("HTMP") was 20.1% for the first half of 2006, representing an increase of 1.4 percentage points over that of the same period in 2005, primarily thanks to reduced material costs.

Management Discussion and Analysis

Other Operating Income

Other operating income mainly includes government subsidies and negative goodwill. For the six months ended 30 June 2006, the Group had other operating income of RMB47.44 million, representing an increase of 179.7% from the RMB16.96 million of the same period last year. This was due largely to the negative goodwill of RMB40 million recorded as a result of Yurun Beixu acquisition.

Operating Expenses

Operating expenses include distribution expenses, administrative expenses and other operating expenses. For the six months ended 30 June 2006, the Group had operating expenses of RMB148 million, an increase of 28.1% compared to RMB116 million for the same period last year. Operating expenses represented 7.1% of the Group's turnover, up 1.8 percentage points compared to 5.3% in the first half of 2005. The increase in operating expenses was due to an increase in sales volume, promotion costs, salary expenses, research and development expenses and transportation costs as well as an increase in administrative expenses due to new subsidiaries.

Operating Profit

For the six months ended 30 June 2006, the Group's operating profit was RMB253 million, an increase of 23.1% from RMB206 million in 2005.

Net Financing Cost

The Group's net financing cost for the first half of 2005 was approximately RMB30.71 million where there was a net financing income of RMB3.37 million in the first half of 2006. This was mainly because after the listing of the Company's shares on the Stock Exchange last year ("IPO"), all convertible instruments were converted into equity and the Group no longer incurred the corresponding amortisation of discounts and transaction costs of the convertible instruments in the first half of 2006. In addition, interest income also increased during the first half of this year because the unused proceeds from the IPO were deposited as short-term deposits in banks. Interest expenses also declined as a result of lower balance of bank loans during the period.

Taxation

For the six months ended 30 June 2006, the income tax were RMB1.82 million with an effective tax rate of 0.7%, representing a decrease of 54.3% in income taxes and 1.6 percentage points in effective tax rate, respectively, compared with a total of RMB3.98 million income tax and an effective tax rate of 2.3% for the same period in 2005. The reason is that most of the Group's subsidiaries were able to enjoy preferential tax treatment after the reorganisation before the Company's IPO.

During the first half of this year, the Group acquired Anhui Furun Meat Processing Co., Ltd. which is the predecessor entity of Fuyang Furun Meat Processing Co., Ltd., being one of the Group's subsidiaries. Anhui Furun is qualified as a State-Level Agricultural Leading Enterprise. Through further reorganisation and restructuring of upstream slaughtering subsidiaries, the Group strives to resume the qualification for the preferential tax treatment available for its subsidiaries as State-Level Agricultural Leading Enterprises prior to the IPO.

Management Discussion and Analysis

Net Profit

Taking all the above factors into account, the Group's net profit for the first half of 2006 increased 48.6% to RMB254 million, from RMB171 million in the same period of 2005. Net profit margin for the first six months of 2006 was 12.2%, representing an increase of 4.4 percentage points compared with 7.8% in the same period of 2005.

Financial Resources

The Group's major financial resources were the proceeds from its IPO in 2005 and the cash inflow from operating activities during the period. Cash balance as of 30 June 2006 was RMB1.284 billion, down RMB72 million from 31 December 2005. Cash inflow from operating activities during the period was RMB157 million.

The Group had RMB20 million outstanding fixed interest rate bank loans as of 30 June 2006. It is expected that the amount will be repaid fully in the second half of 2006.

During the period under review, the Group used capital for strategic acquisition and investment in production facilities, while maintaining stable financial management for daily operations and other capital needs. An analysis of changes in the cash balance has been set out in the condensed consolidated cash flow statement.

Assets and Liabilities

As of 30 June 2006, the Group's total assets were RMB3.022 billion, an increase of RMB166 million compared with 31 December 2005. The Group's total liabilities were RMB639 million as of 30 June 2006, an increase of RMB24 million as of 31 December 2005.

As of 30 June 2006, the Group's total equity was RMB2.383 billion. Total equity attributable to shareholders not including minority interests was RMB2.370 billion, representing an increase of RMB128 million compared with RMB2.242 billion as of 31 December 2005.

As of 30 June 2006, the Group's gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the sum of total debt and equity) was 10.7%, a slight improvement over 12.1% as of 31 December 2005.

Capital Commitments

Details of the Group's capital commitments as of 30 June 2006 are set out in note 14 to the unaudited interim financial report.

Foreign Exchange Risk

Most of the Group's income and expenses are denominated in Renminbi. For the six months ended 30 June 2006, the Group experienced no material difficulties or negative effects on its operations or liquidity arising from currency exchange rate fluctuation.

Management Discussion and Analysis

HUMAN RESOURCES

As of 30 June 2006, the Group employed 10,358 (31 December 2005: 9,286) employees in the PRC mainland and Hong Kong. Total staff costs (including directors' emoluments) for the period were RMB72 million, accounting for 3.5% of the Group's total turnover (first half of 2005: RMB51 million, accounting for 2.3% of total turnover). The Group offered competitive compensation as a performance incentive which is in line with industry practice. We offered performance-based bonuses to employees and other benefits including contributions to retirement plans. The Group provided education and training for management and employees to help upgrade skills and knowledge as well as develop and maintain team spirit.

PROSPECTS

The booming economy and the rising living standards of Chinese people provide a positive environment for the raw meat and processed meat products. Pork is the meat of choice by the Chinese consumers. According to the United Nations Food and Agriculture Organisation, China is the largest pork consumer in the world with a total consumption of 47.66 million tons in 2004, which was about three and nine times of the levels for the European Union and the United States respectively. We believe that the market for meat products will continue to grow as a result of people's improving living standards and rising public awareness of food safety. The PRC government has enacted a number of food safety regulations in recent years, which will push further managerial improvement of leading producers and will accelerate industry consolidation.

The Group will take advantage of the fast growing market opportunities for chilled pork and LTMP by expanding the upstream slaughtering production capacity, increasing the proportion of chilled pork in the upstream business, strengthening the procurement network, and enhancing the hygienic control and disease prevention systems. On the processed meat business, the Group will further optimise the product mix by focusing more on the research and development of high profit margin and high value-added products in order to improve the overall profitability.

Last but not the least, the Group will continue to expand upstream production capacity and enlarge its geographical coverage through a series of flexible measures, including green field and brown field projects, leasing and joint ventures. The Group will further strengthen its branding strategy, selectively increase investments in high return TV and mobile media channels to strengthen "Yurun" brand awareness and reputation and the Group's influence in medium to high-end markets.

Combining the improvement in meat processing capacity, increasing economies of scale and the success in the promotion of "Yurun" and other product brands, the Group believes that with the continued efforts of its more than 10,000 employees, it will take advantage of the industry consolidation in China to gain market share and deliver accelerated growth in order to better reward the shareholders.

Other Information

INTERIM DIVIDEND

The board of directors has resolved to declare an interim dividend of HK\$0.042 (equivalent to approximately RMB0.044) (six months ended 30 June 2005: Nil) per ordinary share for the six months ended 30 June 2006. The interim dividend will be paid on or about 3 November 2006 to shareholders whose names appear on the Register of Members of the Company on 27 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 23 October 2006 to Friday, 27 October 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 20 October 2006.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 30 June 2006, the number of issued ordinary shares of the Company was 1,451,952,650; and the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long positions in the shares of the Company:

Name of Director	Company/name of associated corporation	Nature of interest	Number and class of shares	Approximate percentage of the issued ordinary shares in such corporation
Zhu Yicai ("Mr. Zhu")	Company	Interest of a controlled corporation	748,158,900 ordinary	51.53%
	Willie Holdings Limited ("Willie Holdings")	Beneficial owner	93.41 ordinary	93.41%

Note:

Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. Mr. Zhu is taken to be interested in these shares by virtue of Part XV of the SFO.

Other Information

Save as disclosed above, as at 30 June 2006, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to arrangements to enable the Directors to acquire benefits by means of the acquisitions of shares in or debentures of the Company or any other body corporate, and none of the Directors, chief executive or their spouse or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 30 June 2006, so far as is known to the Directors and chief executive of the Company, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Shares and underlying shares of the Company

Name	Nature of interest	Number and class of shares ^(Note 1)	Approximate percentage of the issued ordinary shares
Willie Holdings	Beneficial owner	748,158,900 (L)	51.53%
Mr. Zhu	Interest of a controlled corporation	748,158,900 (L) ^(Note 2)	51.53%
Ms. Wu	Interest of a controlled corporation	748,158,900 (L) ^(Note 3)	51.53%
The Goldman Sachs Group, Inc.	Interest of a controlled corporation	95,676,150 (L) 2,586,000 (S)	6.59% 0.18%
The Goldman, Sachs & Co. LLC	Interest of a controlled corporation	183,819,096 (L) 179,139,400 (S)	12.66% 12.34%
HSBC Halbis Partners (Hong Kong) Limited	Investment manager	101,103,000 (L)	6.96%

Notes:

- (1) The letters "L" and "S" denote the person's long position and short position in such shares, respectively.
- (2) Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu, the spouse of Mr. Zhu, respectively. Mr. Zhu is taken to be interested in these shares by virtue of the SFO.
- (3) Ms. Wu is the spouse of Mr. Zhu and she is taken to be interested in these shares by virtue of the SFO.

Other Information

Save as disclosed above, as of 30 June 2006, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares and underlying shares of the Company.

SHARE OPTION SCHEME

Pursuant to the resolution passed by the shareholders of the Company on 10 September 2005, a share option scheme was unconditionally approved and adopted on 3 October 2005. No share option has been granted under the share option scheme since its adoption.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In March 2006, the Company adopted a code for securities transactions for relevant employees which is on no less exacting terms than the Model Code in compliance with code provision A.5.4 of the Code on Corporate Governance Practices ("CG Code") set out in Appendix 14 to the Listing Rules.

Except for the above, the Company has complied with the applicable code provisions set out in the CG Code throughout the six months ended 30 June 2006.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as its own code of conduct regarding the Directors' securities transactions. The Company, having made specific enquiry of all Directors, confirms that its Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2006.

AUDIT COMMITTEE

The Audit Committee 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 2006.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 6 September 2006