



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



Brand-driven growth

2007 Interim Report



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Corporate Information

Board of Directors

Executive Directors

Zhu Yicai (Chairman)
Zhu Yiliang (Chief Executive Officer)
Zhang Yuanfei (Chief Operating Officer)
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 Communications Co., Ltd.
China Construction Bank Corporation
Bank of China Limited
Industrial and Commercial Bank of China Limited
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

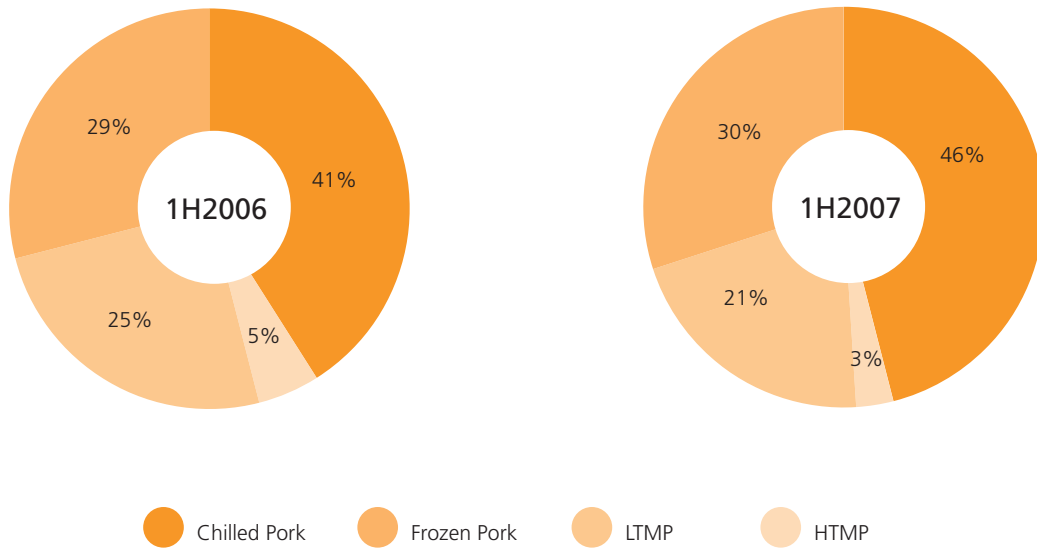
	For the six months ended 30 June		Change
	2007 RMB in million (Unaudited)	2006 RMB in million (Unaudited)	
Turnover	3,407	2,081	63.7%
Gross profit	506	354	42.9%
Profit attributable to shareholders	380	254	49.5%
Diluted earnings per share (RMB)	0.261	0.175	49.1%
Gross profit margin	14.8%	17.0%	-2.2 percentage points
Net profit margin	11.2%	12.2%	-1 percentage point

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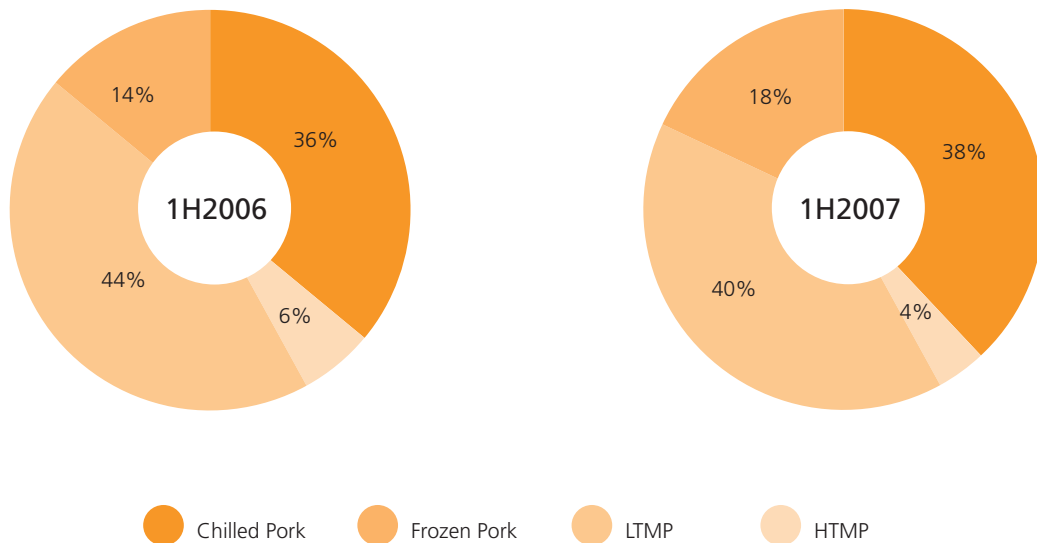
- In the first half of 2007, turnover for the Group significantly increased by 63.7% to RMB3,407 million, compared with RMB2,081 million for the same period last year. The improvement was mainly attributable to the increasing brand awareness and enhanced market efforts of the Group, which resulted in the stable increase in the sales volume of the Group's products. Increase in turnover was also attributable to the Group's launch of new downstream products with higher value-added nature to optimize its product mix in order to increase the price of the products. Finally, the Group's upstream business sticks firmly to its market-based pricing strategy which enables us to adjust the prices of upstream products as a result of the increase in live hog price.
- In the first half of 2007, gross profit for the Group was RMB506 million, representing an increase of 42.9%, reflecting the Group's healthy profitability though the market price of live hog was fairly volatile during the review period.
- The Group's net profit for the period was RMB380 million, up 49.5% from RMB254 million recorded in the same period in 2006. The increase was mainly contributed from the increases in the operating profit of core business and other operating income.

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 2007 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2007 RMB'000	2006 RMB'000
Turnover	2	3,407,395	2,081,006
Cost of sales		(2,901,673)	(1,727,016)
Gross profit		505,722	353,990
Other operating income	5	117,708	47,435
Distribution expenses		(135,467)	(103,897)
Administrative and other operating expenses		(85,398)	(44,138)
Operating profit before net financing income		402,565	253,390
Financial income		9,248	10,881
Financial expenses		(6,520)	(7,513)
Net financing income	6(a)	2,728	3,368
Share of profits less losses of an equity accounted investee		(487)	(692)
Profit before tax	6	404,806	256,066
Income tax expense	7	(24,193)	(1,819)
Profit for the period		380,613	254,247
Attributable to:			
Equity holders of the Company		380,259	254,390
Minority interests		354	(143)
		380,613	254,247
Earnings per share			
Basic (RMB)	9(a)	0.262	0.175
Diluted (RMB)	9(b)	0.261	0.175

The notes on pages 9 to 28 form part of this interim financial report.

Consolidated Balance Sheet

As at 30 June 2007 – unaudited
(Expressed in Renminbi)

	Note	30 June 2007 RMB'000	31 December 2006 RMB'000
Non-current assets			
Property, plant and equipment	10	1,195,220	933,891
Lease prepayments		362,157	220,238
Investment in an equity accounted investee		3,517	4,004
Non-current prepayments		129,120	116,916
Deferred tax assets		12,821	18,396
		1,702,835	1,293,445
Current assets			
Tax recoverable		5,186	—
Inventories		504,582	513,922
Other investments		1,000	2,000
Trade and other receivables	11	592,076	492,111
Amounts due from related companies		—	4,080
Pledged deposits		—	1,818
Cash and cash equivalents	12	778,331	843,956
		1,881,175	1,857,887
Current liabilities			
Bank loans		95,000	43,000
Finance lease liabilities		419	516
Trade and other payables	13	463,375	377,957
Amounts due to related companies		—	72,735
Income tax payable		19,423	7,337
		578,217	501,545
Net current assets		1,302,958	1,356,342
Total assets less current liabilities		3,005,793	2,649,787
Non-current liabilities			
Bank loans		50,000	—
Finance lease liabilities		165,323	187,665
Deferred tax liabilities		217	948
		215,540	188,613
Net assets		2,790,253	2,461,174

Consolidated Balance Sheet

As at 30 June 2007 – unaudited
(Expressed in Renminbi)

Note	30 June 2007 RMB'000	31 December 2006 RMB'000
Shareholders' equity		
Share capital	151,003	151,003
Reserves	2,626,440	2,297,715
Total equity attributable to shareholders of the Company	2,777,443	2,448,718
Minority interests	12,810	12,456
Total equity	2,790,253	2,461,174

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Approved and authorised for issue by the board of directors on 29 August 2007.

Zhu Yicai
Director

Zhang Yuanfei
Director

The notes on pages 9 to 28 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007 – unaudited
(Expressed in Renminbi)

	Note	Attributable to equity holders of the Company									Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Merger reserve RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	
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(e)	—	—	—	(33,469)	6,487	—	—	(26,982)	—	(26,982)
Arising on business combinations	4(e)	—	—	—	—	—	—	—	—	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
At 1 January 2007		151,003	1,693,758	4,140	(114,317)	84,806	(5,980)	635,308	2,448,718	12,456	2,461,174
Profit for the period		—	—	—	—	—	—	380,259	380,259	354	380,613
Share based payment		—	—	—	—	—	—	13,998	13,998	—	13,998
Deferred tax recognised in reserves		—	—	—	—	—	—	(4,550)	(4,550)	—	(4,550)
Dividends approved and paid during the period	8(b)	—	—	—	—	—	—	(60,982)	(60,982)	—	(60,982)
At 30 June 2007		151,003	1,693,758	4,140	(114,317)	84,806	(5,980)	964,033	2,777,443	12,810	2,790,253

The notes on pages 9 to 28 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2007 RMB'000	2006 RMB'000
Cash generated from operations		378,576	158,952
Tax paid		(16,999)	(1,607)
Net cash from operating activities		361,577	157,345
Net cash used in investing activities		(340,255)	(122,624)
Net cash used in financing activities		(86,947)	(105,344)
Net decrease in cash and cash equivalents		(65,625)	(70,623)
Cash and cash equivalents at 1 January	12	843,956	1,355,536
Effect of foreign exchanges rates changes		—	(905)
Cash and cash equivalents at 30 June	12	778,331	1,284,008

The notes on pages 9 to 28 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 statements of the Company as at and for the six months ended 30 June 2007 comprise the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interest in an associate.

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, “Interim financial reporting” promulgated by the International Accounting Standards Board. It was authorised for issuance on 29 August 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

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 2006.

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 2006 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 Hong Kong Standard on Review Engagement 2410, “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the board of directors is included on page 29.

The financial information relating to the financial year ended 31 December 2006 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 2006 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 April 2007.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

2. Segment reporting

The Group's primarily format for reporting segment information is business segments, which comprises the following main business segments:

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

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.

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	For the six months ended 30 June							
	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Revenue from external customers	2,537,390	1,421,097	870,005	659,909	—	—	3,407,395	2,081,006
Inter-segment revenue	234,336	112,906	—	—	(234,336)	(112,906)	—	—
Segment revenue	2,771,726	1,534,003	870,005	659,909	(234,336)	(112,906)	3,407,395	2,081,006
Segment results	281,591	136,868	139,936	132,401	—	—	421,527	269,269
Unallocated income and expenses							(40,914)	(15,022)
Profit for the period							380,613	254,247

3. Seasonality of operations

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

4. Business combinations

(a) Xinyu Runhe Meat Product Co., Ltd (“Xinyu Runhe”)

On 5 January 2007, the Group acquired a 100% equity interest of Xinyu Runhe from independent third parties at a cash consideration of RMB70,693,000. Details of Xinyu Runhe at 30 June 2007 are as follows:

Name of company	Registered capital	Principal activities	Results contributed by the company from the date of acquisition to 30 June 2007 RMB'000
Xinyu Runhe 新餘潤合肉類 食品有限公司	RMB10,000,000	Slaughtering, production and sale of chilled and frozen meat	40,734

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

	Recognised values on acquisition RMB'000	Fair value adjustment RMB'000	Pre-acquisition carrying amounts RMB'000
Property, plant and equipment (note 10)	45,078	24,875	20,203
Lease prepayments	48,345	20,941	27,404
Other net current liabilities	(22,730)	1,100	(23,830)
Net identifiable assets acquired	70,693	46,916	23,777
Cash acquired	(422)		
Net cash outflow	70,271		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

4. Business combinations (Continued)

(b) Huaxin Food Factory ("Huaxin")

On 8 January 2007, the Group acquired the entire business operations of slaughtering, production and sale of chilled and frozen meat together with the relevant assets of Huaxin from Shandong Province Shanghe County Economic and Trade Commission (山東商河縣經濟貿易局), an independent third party, at a cash consideration of RMB100,000 and injected the relevant business operations and assets into Jinan Wanrun Meat Processing Co., Ltd. Details of Huaxin are as follows:

Name of company	Principal activities	Results contributed by the acquired business from the date of acquisition to 30 June 2007 RMB'000
Huaxin 華信食品廠	Slaughtering, production and sale of chilled and frozen meat	58,173

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

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

	Recognised values on acquisition RMB'000	Fair value adjustment RMB'000	Pre-acquisition carrying amounts RMB'000
Property, plant and equipment (note 10)	24,708	16,030	8,678
Lease prepayments	25,368	25,368	—
Net identifiable assets acquired	50,076	41,398	8,678
Consideration	100		
Negative goodwill arising on acquisition (note 5)	49,976		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007. Huaxin had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on acquisition which resulted in a negative goodwill.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

4. Business combinations (Continued)

(c) Lixian Huatai Meat Product Co., Ltd. ("Lixian Huatai")

On 14 February 2007, the Group acquired a 100% equity interest of Lixian Huatai from independent third parties at a cash consideration of RMB59,048,000. Details of Lixian Huatai at 30 June 2007 are as follows:

Name of company	Registered capital	Principal activities	Results contributed by the company from the date of acquisition to 30 June 2007 RMB'000
Lixian Huatai 澧縣華泰肉類 食品有限公司	RMB10,000,000	Slaughtering, production and sale of chilled and frozen meat	(512)

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

	Recognised values on acquisition RMB'000	Fair value adjustment RMB'000	Pre-acquisition carrying amounts RMB'000
Property, plant and equipment (note 10)	57,639	25,375	32,264
Lease prepayments	20,305	9,635	10,670
Other net current liabilities	(18,896)	1,092	(19,988)
Net identifiable assets acquired	59,048	36,102	22,946
Cash acquired	(3,427)		
Net cash outflow	55,621		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

4. Business combinations (Continued)

(d) Dujiangyan Xiangrui Food Co., Ltd. ("Dujiangyan Xiangrui")

On 24 May 2007, the Group acquired a 100% equity interest of Dujiangyan Xiangrui from independent third parties at a cash consideration of RMB98,466,000. Details of Dujiangyan Xiangrui at 30 June 2007 are as follows:

Name of company	Registered capital	Principal activities	Results contributed by the company from the date of acquisition to 30 June 2007 RMB'000
Dujiangyan Xiangrui 都江堰祥瑞肉類 加工有限公司	RMB5,000,000	Slaughtering, production and sale of chilled and frozen meat	(504)

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

	Recognised values on acquisition RMB'000	Fair value adjustment RMB'000	Pre-acquisition carrying amounts RMB'000
Property, plant and equipment (note 10)	57,101	19,904	37,197
Lease prepayments	54,180	54,180	—
Other net current liabilities	(12,815)	(1,135)	(11,680)
Net identifiable assets acquired	98,466	72,949	25,517
Cash acquired	(1,355)		
Net cash outflow	97,111		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2007.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

4. Business combinations (Continued)

(e) Henan Yurun Beixu Meat Food Company Limited (“Yurun Beixu”)

On 18 June 2006, the Group acquired a 75% equity interest of Yurun Beixu from an independent third party at a cash consideration of RMB750,000. Details of Yurun Beixu at 30 June 2007 and 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 meat	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 had minimal operation before the acquisition by the Group.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

4. Business combinations (Continued)

(e) Henan Yurun Beixu Meat Food Company Limited ("Yurun Beixu") (Continued)

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

	Recognised values on acquisition	Fair value adjustment	Pre-acquisition carrying amounts
	RMB'000	RMB'000	RMB'000
Property, plant and equipment (note 10)	43,039	32,788	10,251
Lease prepayments	10,289	10,289	—
Cash and cash equivalents	1,000	—	1,000
Net identifiable assets	54,328	43,077	11,251
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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

5. Other operating income

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Government subsidies	58,475	600
Recognition of negative goodwill arising on business combinations (note 4)	49,976	39,996
Rental income	499	585
Others	8,758	6,254
	117,708	47,435

6. Profit before tax

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

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
(a) Net financing income:		
Interest on bank and other loans wholly repayable within five years	2,568	544
Bank charges	388	137
Interest on lease obligations	3,025	6,749
Foreign exchange loss	539	83
Interest income	(9,248)	(10,881)
	(2,728)	(3,368)
(b) Other items:		
(Reversal of)/impairment losses on trade and other receivables	(3,643)	2,351
Depreciation	35,670	21,624
Operating lease charges		
— premises	446	257
— land use rights	274	1,093
Loss/(gain) on disposal of property, plant and equipment	1,028	(467)
Amortisation of lease prepayments	3,262	8

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

7. Income tax expense

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Current tax expense	23,899	2,595
Deferred tax expense/(income)	294	(776)
	24,193	1,819

- (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 2007 and 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 per cent during the six months ended 30 June 2007 (30 June 2006: 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 per cent reduction in the PRC enterprise income tax for the next three years.
 - (ii) Anhui Furun Meat Processing Co. Ltd. ("Anhui Furun"), was awarded a "State-Level Agricultural Leading Enterprise" by the central government of the PRC in December 2002. Pursuant to Guoshuifa (2001) No. 124, a State-Level Agricultural Leading Enterprise is eligible to full exemption from PRC enterprise income tax. A subsidiary of more than a 50 per cent equity interest owned by a State-Level Agricultural Leading Enterprise is also entitled to exemption of PRC enterprise income tax if it is involved in the primary processing of agricultural products. Subsidiaries of Anhui Furun that satisfied the above conditions were entitled to full exemption from PRC enterprise income tax since the date they become subsidiaries of Anhui Furun.
 - (iii) Pursuant to Xinzhengfa (2002) No. 29 and the investment agreement entered into with the Administration Committee of Xinjiang Shihezi Economic and Technological Development Zone ("新疆石河子市經濟技術開發區管委會"), Xinjiang Yurun Food Co., Ltd. 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 per cent for the remaining years through 2010.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

7. Income tax expense (Continued)

- (d) The Group's consolidated effective tax rate for the six months ended 30 June 2007 was 6.0% (for the six months ended 30 June 2006: 0.7%). This change in effective tax rate was mainly due to the PRC tax exemption of certain companies comprising the Group which are foreign invested enterprises in the PRC expired during the six months ended 30 June 2007. Since 1 January 2007, these companies are entitled a 50% reduction in the PRC enterprise income tax for the three years ending 31 December 2009.

8. Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Interim dividend proposed after the balance sheet date of HK\$0.070 (approximate to RMB0.070) per share (six months ended 30 June 2006: HK\$0.042 (approximate to RMB0.044) per share)	101,637	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	
	2007 RMB'000	2006 RMB'000
Final dividend in respect of the year ended 31 December 2006, approved and paid during the following interim period, of HK\$0.042 (approximate to RMB0.042) per share (year ended 31 December 2005: HK\$0.065 (approximate to RMB0.068) per share)	60,982	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 Company of RMB380,259,000 (six months ended 30 June 2006: RMB254,390,000) and the weighted average number of ordinary shares of 1,451,953,000 (2006: 1,451,953,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB380,259,000 (six months ended 30 June 2006: RMB254,390,000) and the weighted average number of ordinary shares of 1,456,565,000 (2006: 1,451,953,000).

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10. Property, plant and equipment

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2007 are as follows:

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Cost of acquisitions	135,053	82,437
Acquisitions through business combinations (note 4)	184,526	43,039
Disposals (net carrying amount)	2,837	328
Disposals through derecognition of finance lease (net carrying amount)	19,743	—

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

11. Trade and other receivables

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

	30 June 2007 RMB'000	31 December 2006 RMB'000
Within 30 days	295,041	209,434
31 days to 90 days	107,584	89,565
91 days to 180 days	28,784	15,741
Over 180 days	7,359	8,023
Total trade debtors and bills receivable, net of impairment loss	438,768	322,763
Value-added tax recoverable	100,190	107,817
Deposits and prepayments	19,672	37,076
Other debtors	33,446	24,455
	592,076	492,111

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. As at 30 June 2007, amounts due from related companies of RMB1,646,000 (31 December 2006: RMB895,000) are included in trade debtors (note 15(b)).

12. Cash and cash equivalents

	30 June 2007 RMB'000	31 December 2006 RMB'000
Cash and bank balances	778,331	843,956

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

13. Trade and other payables

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

	30 June 2007 RMB'000	31 December 2006 RMB'000
Within 30 days	157,117	157,481
31 days to 90 days	21,325	31,115
91 days to 180 days	69,531	10,781
Over 180 days	21,381	13,166
Total trade creditors and bills payable	269,354	212,543
Receipts in advance	55,732	44,230
Other payables and accruals	138,289	121,184
	463,375	377,957

As at 30 June 2007, amounts due to related companies of RMB17,294,000 (31 December 2006: RMB3,734,000) are included in trade creditors (note 15(c)).

14. Capital commitments outstanding not provided for in the interim financial report

	30 June 2007 RMB'000	31 December 2006 RMB'000
Contracted for	134,566	57,529
Authorised but not contracted for	365,696	646,732
	500,262	704,261

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. Related party transactions

During the six months ended 30 June 2007 and 2006, 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

Liaocheng Furun Poultry Product Co., Ltd. ("Liaocheng Furun")#
聊城市福潤禽業食品有限公司

Jiangsu Yurun Food Group Co. Ltd. ("Jiangsu Yurun Food Group")#
江蘇雨潤食品產業集團有限公司

Anhui Yurun Group Co., Ltd. ("Anhui Yurun")#
安徽雨潤食品集團有限公司

Jiangsu Furun Meat Processing Co., Ltd. ("Jiangsu Furun")#
江蘇福潤肉類加工有限公司

Neijiang Yurun Meat Product Co., Ltd. ("Neijiang Yurun Product")#
內江雨潤肉食品有限公司

Baiyin Yurun Meat Product Co., Ltd. ("Baiyin Yurun")#
白銀雨潤肉類食品有限公司

Beijing Yurun Food Co., Ltd. ("Beijing Yurun Food")#
北京雨潤食品有限公司

Guangzhou Jinrun Food Co., Ltd. ("Guangzhou Jinrun")#
廣州錦潤食品有限公司

Jiangsu Wangrun Food Co., Ltd. ("Jiangsu Wangrun")#
江蘇旺潤食品有限公司

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. Related party transactions (Continued)

Name of party (Continued)

Liaoning Kaiyuan Yurun Meat Product Co., Ltd. (“Kaiyuan Yurun”)[#]
遼寧省開原市雨潤肉食品有限公司

Nanjing Yurun Food Joint Stock Co., Ltd. (“Yurun Stock”)[#]
南京雨潤食品股份有限公司

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.

^{*} Itoham is an associate of the Group.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. Related party transactions (Continued)

(a) Significant related party transactions

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

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
<i>Sales of meat and by-product</i>		
Anhui Xuerun	4,753	10,298
Anhui Enbi	1,036	1,291
Total	5,789	11,589
<i>Sales of raw materials</i>		
Anhui Xuerun	1,236	1,888
Anhui Enbi	—	8
Itoham	598	—
Total	1,834	1,896
<i>Purchases of raw materials</i>		
Anqing Furun	996	1,079
Liaocheng Furun	5,658	810
Total	6,654	1,889
<i>Purchases of finished goods</i>		
Anhui Xuerun	38,262	29,109

- (ii) The Group leases certain property, plant and equipment and land use rights owned by the Predecessor Entities during the six months ended 30 June 2007. The rental paid or payable to the Predecessor Entities amounted to RMB3,200,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: RMB7,815,000).
- (iii) As at 30 June 2007, bank loans totalling RMB55,000,000 (31 December 2006: RMB43,000,000) were guaranteed by Jiangsu Yurun Food Group.
- (iv) During the six months ended 30 June 2007, the Group disposed of an other investment at its carrying value of RMB1,000,000 to Jiangsu Yurun Food Group with no gain or loss on disposal.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. Related party transactions (Continued)

(a) Significant related party transactions (Continued)

- (v) During the six months ended 30 June 2007, certain Predecessor Entities made available their properties at a carrying value of RMB33,658,000 as at 30 June 2007 to the Group companies (as at 31 December 2006: RMB14,133,000). No rental is paid or payable by any of the Group companies.

(b) Amounts due from related companies

	30 June 2007 RMB'000	31 December 2006 RMB'000
Anhui Enbi	608	900
Anhui Xuerun	898	880
Itoham	140	—
Jiangsu Yurun Food Group	—	3,195
	1,646	4,975

(c) Amounts due to related companies

	30 June 2007 RMB'000	31 December 2006 RMB'000
Anhui Enbi	496	25
Anhui Xuerun	10,922	619
Anhui Yurun	—	34,186
Anqing Furun	1,335	396
Jiangsu Yurun Food Group	—	12,676
Jiangsu Furun	—	15,963
Liaocheng Furun	4,541	2,694
Neijiang Yurun Product	—	9,910
	17,294	76,469

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

15. Related party transactions (Continued)

(d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	1,882	1,961
Contribution to retirement benefit schemes	92	29
Share-based payment	8,474	—
	10,448	1,990

(e) Acquisition of a Predecessor Entity

On 27 June 2006, the Group acquired a Predecessor Entity, Anhui Furun 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 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2007

Up to the date of issue of this interim financial report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2007. Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
IFRIC 11, IFRS 2 - Group and treasury share transactions	1 March 2007
IFRS 8, Operating segments	1 January 2009
IAS 23 (Revised), Borrowing costs	1 January 2009

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 2007.

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. As the process of evaluating the impact has not yet completed, the Group is therefore unable to disclose the impact that adopting the above amendments, new standards and interpretations.

Independent Review Report

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

Introduction

We have reviewed the interim financial report set out on pages 4 to 28 which comprises the consolidated balance sheet of China Yurun Food Group Limited as of 30 June 2007 and the related consolidated income statement, and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. 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" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Basis on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 August 2007

Management Discussion and Analysis

INDUSTRY REVIEW

During the first half of 2007, China maintained a strong momentum of economic growth. According to the National Bureau of Statistics of China, the domestic economic growth rate of China in the first half of the year was 11.5% with the per capita average disposable income of urban residents reaching RMB7,052, representing an increase of 17.6% over that of last year. The higher growth rate of per capita disposable income than the economic growth rate demonstrates the strong consumption potential of the Chinese consumers, resulting in a growing demand for high-quality meat products of well-known brands.

In the hog market in China, meat processing enterprises were faced with a relatively challenging environment of supply and demand dynamics as well as pricing. Since the beginning of this year, as a result of a short-term imbalance between domestic hog supply and demand, coupled with a substantial price increase for major feeds such as corn which drove up the costs of raising hogs, domestic hog prices further increased during the first half of 2007, following a significant rebound during the second half of 2006. According to the Ministry of Agriculture, the national average domestic hog price during the first half of 2007 was as high as RMB9.71 per kilogram, representing an increase of 46% over RMB6.65 per kilogram during the corresponding period of the preceding year. The supply and demand gap and the continuous increase in the prices for hogs presented greater challenges to the overall management and operation of Chinese meat processors in many aspects, such as supply chain management, market pricing power and cost control.

Meanwhile, the Chinese government further strengthened its administrative oversight of the industry during the first half of 2007 to ensure the steady and healthy growth in the hog and pork products market, creating favourable environment and opportunities for the mid-term as well as long-term development of the meat processors. In order to relieve the tight supply of hogs, the Chinese government enacted a number of measures such as granting allowances for breeding reproductive sows to encourage farmers to rear hogs, increasing market supply, and ensuring a balanced supply and demand and stabling hog prices. On the other hand, as an integral part of the efforts to strengthen the regulation on the hog slaughtering business and promote orderly development of the slaughtering industry, the Chinese government implemented the "Accreditation Measures of Qualification Grades for Live Pig Slaughter-Houses" in the first half of 2007 and continued the drafting of the "Administrative Provisions for Live Pig Slaughtering (Second Draft)", laying solid foundations for the orderly and healthy development of the industry.

China is currently the largest pork market in the world. But the Chinese pork processing sector is still highly fragmented. At present, the number of pigs slaughtered by the top three meat processors is less than 5% of the nationwide total amount. The level of process automation, overall technical standards and equipment quality of the pig slaughtering enterprises in China significantly lag behind international peers. As the Chinese government further strengthens its regulation on the pig slaughtering industry, large-scaled domestic modern meat processors will be able to enhance their market position and benefit from greater potential for further market growth.

BUSINESS REVIEW

With our leading brand image and market position, successful marketing strategy on medium and high end market segments, extensive experiences in management and operation, as well as our flexible and solid capacity expansion strategies, the Group continued to record a strong growth despite the challenging business environment during the first half of 2007. As the key drivers of our business expansion, low temperature meat products ("LTMP") and chilled pork both recorded rapid growth in sales volume.

Management Discussion and Analysis

During the period under review, the Group pursued an effective branding strategy. Through advertising on China Central Television and various mobile media, the promotion of our flagship “Yurun” brand in the LTMP and chilled pork market proved to be successful, ensuring our pricing power to maintain profit margin in the face of continuously increasing hog procurement costs. In addition, the Group’s nationwide network of production facilities, efficient supply chain management, as well as sound and flexible management, operation and marketing strategies all contributed to the successful implementation of the Group’s business strategy and the rapid growth in our core product lines and market coverage despite adverse circumstances such as short-term imbalance in domestic hog supply and demand and continuously increasing hog prices.

Leveraging on our strong brand recognition and mature operational system, the Group took advantage of favourable industry consolidation opportunities in the domestic hog slaughtering sector and continued to expand its production capacity expansion and market share through flexible measures including green field and brown field projects as well as acquisitions. Following the acquisition of three companies in Beixu, Jinan and Badong in 2006, we completed three other acquisitions in Jiangxi, Hunan and Sichuan provinces in the first half of 2007. These strategic expansions further optimized our hog procurement network, ensured a stable supply of raw materials at competitive costs, enlarged our multi-level coverage on target markets, perfected our live pig supply chain and strengthened integrated nationwide network of procurement, processing and sales, enhanced our market share, and will also played a very important role in boosting the sustainable and rapid growth of the Group’s businesses.

Sales and Distribution

During the first half of 2007, the Group continued to strengthen its brand promotion through various channels such as advertising on China Central Television and mobile media, resulting in very satisfactory performance in our LTMP and chilled pork businesses.

With respect to our target markets and distribution network, the Group continued to focus on its sales model of direct sales supplemented with distribution through independent distributors. By reinforcing its co-operation with supermarkets and chain stores, the Group has enhanced its sales contribution through these direct sales channels. During the first half of 2007, chain stores and supermarkets accounted for 39.1% and 54.5% of our upstream and downstream sales respectively, increasing 3.1 and 8.3 percentage points over the corresponding period of the preceding year respectively. Meanwhile, the Group further strengthened its co-operation with high-end hotels and catering chains so as to enhance profitability by increasing sales of products with high margin and high added-value. During the first half of 2007, our sales to high-end hotels increased by 44.3% on a year-over-year basis, representing 10.1% of our downstream turnover, up by 1 percentage point as compared to the corresponding period in 2006, while sales of our upstream products to catering chains increased by 1.1 percentage points over the corresponding period in 2006 to 9.0% of our upstream business turnover.

During the period under review, our turnover from LTMP increased by 36.8% over the last corresponding period to RMB761 million, representing 20.9% (first half of 2006: 25.4%) of the Group’s total turnover before inter-segment elimination. The turnover of chilled pork increased by 85.7% over the last corresponding period and reached RMB1,682 million, representing 46.2% (first half of 2006: 41.3%) of the Group’s total turnover before inter-segment elimination.

Production Facilities and Capacity

In order to meet the growing market demand for our products, the Group continued to expand production capacity through selective acquisitions and green field as well as brown field projects.

Management Discussion and Analysis

In the downstream business, as the production capacity in Nanjing and Xinjiang continued to expand and the new plant in Harbin commenced operation, the Group's downstream production capacity during the period grew significantly. As of 30 June 2007, the Group's annual downstream production capacity reached 187,000 tons (first half of 2006: 168,000 tons), representing an increase of 11.3% over the last corresponding period. Furthermore, the construction of the processing plants in Maanshan and Shenyang is in progress and they are expected to be completed by the end of 2007, adding an aggregate production capacity of 30,000 tons. Our downstream capacity expansion not only further improved our market coverage in eastern, northeastern and northern China, but also established sufficient infrastructure for new product launches and the sustainable rapid development of our downstream business.

As for the upstream business, the Group invested RMB228 million in acquiring three hog slaughtering companies in Jiangxi Province, Hunan Province and Sichuan Province, which increased the annual aggregate slaughtering capacity by 1.5 million heads. This established the foundation for capacity expansion in 2007 and strengthened the Group's market position in central and southwestern China. In addition, the Group's new slaughtering facility in Harbin commenced operation during the period, further expanding the Group's slaughtering capacity in northeastern China. As of 30 June 2007, the Group's annual hog slaughtering capacity reached 12.05 million heads (first half of 2006: 8.86 million heads), representing an increase of 36.0% as compared with the last corresponding period.

FINANCIAL REVIEW

For the six months ended 30 June 2007, benefiting from rapid growth in sales volumes and significant increase in product price, the Group's turnover reached RMB3.407 billion (first half of 2006: RMB2.081 billion), representing an increase of 63.7% over the last corresponding period. The Group also reported a net profit of RMB380 million (first half of 2006: RMB254 million) for the period, representing an increase of 49.5% compared to the last corresponding period, or RMB330 million (first half of 2006: RMB214 million) net of negative goodwill, representing an increase of 54.1% over the last corresponding period. Diluted earnings per share was RMB0.261 (first half of 2006: RMB0.175), representing an increase of 49.1% compared to the last corresponding period.

Turnover

Processed Meat Products

For the six months ended 30 June 2007, the Group's downstream sales increased by 31.8% over the last corresponding period to RMB870 million, of which LTMP and high temperature meat products ("HTMP") accounted for RMB761 million (or 87.5%) and RMB109 million (or 12.5%) respectively, representing an increase of 36.8% and 4.9% compared to the last corresponding period respectively. Sales volume of LTMP was up by 25.8% due to the Group's established brand image and marketing promotions. In addition, the Group's continuous efforts on launching high value-added new products, optimization of product mix and timely adjustment in product prices also contributed to the rapid growth in sales of the processed meat business.

Management Discussion and Analysis

Chilled and Frozen Pork

For the six months ended 30 June 2007, the Group's upstream sales increased by 80.7% over the last corresponding period to RMB2.772 billion, of which chilled and frozen pork accounted for RMB1.682 billion (or 60.7%) and RMB1.09 billion (or 39.3%) respectively, representing an increase of 85.7% and 73.5% as compared to the corresponding period respectively. Such increase was mainly due to the steady increase in the Group's slaughtering capacity and the Group's market-oriented pricing strategy by adjusting upstream product prices accordingly when hog prices rose significantly.

Gross Profit and Gross Margin

As of 30 June 2007, the Group's gross profit was RMB506 million, representing an increase of 42.9% compared to the last corresponding period (first half of 2006: RMB354 million); the Group's overall gross margin was 14.8%, a slight decrease compared with 17.0% in the first half of 2006, but remained at a similar level as compared with 14.1% in the second half of 2006. During the period under review, an increased proportion of upstream sales resulted in a decrease in the overall gross margin as gross margin of the upstream business was lower than that of the downstream business.

For the downstream business, the gross margin of LTMP was 27.0%, similar to the level recorded in the first half of 2006, while up 2.1 percentage points compared to the second half of 2006. Gross profit margin of HTMP segment was 18.3%, representing a decrease of 1.8 and 0.5 percentage points compared to the first half and second half of 2006 respectively. Overall gross margin of the downstream business was 25.9%, similar to 26.2% recorded in the first half of 2006, representing an increase of 2.0 and 0.9 percentage points compared to 23.9% in the second half of 2006 and 25% in the whole year of 2006 respectively. Despite of the soaring hog price during the period, the gross margin of LTMP remained stable, mainly due to the Group's effective cost control on raw pork coupled with an increase in product price of LTMP, as well as enhanced sales contribution for high margin and high value-added products.

For the upstream business, the gross margin of chilled pork was 11.5%, representing a decrease of 2.5 and 0.9 percentage points compared with 14.0% in the first half of 2006 and 12.4% for the whole year of 2006 respectively. Gross margin of frozen pork was 8.1%, increasing 0.2 and 0.6 percentage point compared with 7.9% in the first half of 2006 and 7.5% for the whole year of 2006 respectively. The overall gross margin of the upstream business was 10.1%, representing a decrease of 1.4 percentage points compared with 11.5% in the first half of 2006, similar to 10.3% registered for the whole year of 2006. Despite substantial increase in hog prices, the Group sustained a stable gross margin for the upstream business by strengthening sales efforts on chilled pork, executing market-oriented pricing policy, as well as a flexible sales strategy for chilled and frozen pork.

Other Operating Income

Other operating income mainly includes government subsidies and negative goodwill. For the six months ended 30 June 2007, the Group had other operating income of RMB117.71 million, representing an increase of 148.1% from RMB47.44 million of the last corresponding period, of which RMB58.48 million (first half of 2006: RMB600,000) was government grants as an incentive to the Group's business development.

Management Discussion and Analysis

Operating Expenses

Operating expenses include marketing expenses, administrative expenses and other operating expenses. For the six months ended 30 June 2007, the Group had operating expenses of RMB221 million, an increase of 49.2% compared to RMB148 million for the last corresponding period. The increase was mainly due to the Company's promotion efforts through mainstream and mobile media channels, higher transportation cost due to sales volume growth and increased administrative expenses due to the granting of employee share options started from the end of last year. Operating expenses represented 6.5% of the Group's turnover, down 0.6 percentage point compared to 7.1% for the last corresponding period.

Operating Profit

For the six months ended 30 June 2007, the Group's operating profit was RMB403 million, an increase of 58.9% from RMB253 million in the last corresponding period. Operating profit, if net of negative goodwill, would be RMB353 million, representing an increase of 65.2% (first half of 2006: RMB213 million) compared to the last corresponding period.

Net Financing Cost

For the first half of 2007, the Group had a net financing income of RMB2.73 million, compared to RMB3.37 million in the first half of 2006.

Income Tax

For the six months ended 30 June 2007, the Group's income tax expenses were RMB24.19 million with an effective tax rate of 6.0%, representing an increase of RMB22.37 million in income taxes and 5.3 percentage points in effective tax rate, as compared to RMB1.82 million in income tax and an effective tax rate of 0.7% during the same period last year. The primary reason was that from 2007, the Group's subsidiaries in the processed meat segment started to pay enterprise income tax under the preferential tax policy of "exemption for two years and 50% tax reduction for the subsequent three years" applicable for foreign investment enterprises. However, as most of our slaughtering enterprises were entitled to relevant tax preferential treatment specialized for State-Level Agricultural Leading Enterprise, they were exempted from corporate income tax.

Net Profit

Taking all the above factors into account, net profit for the first half of 2007 increased 49.5% to RMB380 million, from RMB254 million in the same period of 2006. Net profit margin for the first half of 2007 was 11.2%, representing a decrease of 1.0 percentage point compared with 12.2% in the first half of 2006.

Financial Resources

The Group's major financial resources were cash inflow from operating activities and the proceeds from our global offering in 2005. The cash balance as of 30 June 2007 was RMB778 million, RMB66 million less than our cash balance on 31 December 2006. The cash inflow from operating activities during the period was RMB362 million, an increase of 129.8% compared to the last corresponding period.

Management Discussion and Analysis

During the period under review, the Group used capital for strategic acquisitions and investments in production facilities, while maintaining stable financial management and adequate liquidity for daily operations and other capital needs.

Assets and Liabilities

As of 30 June 2007, the Group's total assets were RMB3.584 billion, an increase of RMB433 million compared with 31 December 2006. The Group's total liabilities were RMB794 million as at 30 June 2007, an increase of RMB104 million compared to 31 December 2006. As of 30 June 2007, the Group's total equity was RMB2.79 billion. Total equity attributable to shareholders excluding minority interests was RMB2.777 billion, representing an increase of RMB329 million compared with 31 December 2006. As at 30 June 2007, 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 attributable to shareholders excluding minority interests) was 10.1%, a slight increase over 8.6% as at 31 December 2006.

Capital Commitments

Details of the Group's capital commitments as at 30 June 2007 are reported 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 2007, the Group did not experience any material difficulties or negative effects on its operations or liquidity arising from currency exchange rate fluctuation.

HUMAN RESOURCES

As of 30 June 2007, the Group had 13,112 (30 June 2006: 10,358) employees in the PRC and Hong Kong. Total staff costs for the period were RMB118 million, accounting for 3.5% of the Group's total turnover (same period in 2006: RMB72 million, accounting for 3.5% of total turnover). The Group offered competitive remuneration and other employee benefits including contributions to social security schemes such as retirement benefit scheme. The Group also offered performance-based bonuses to staff and has a share option scheme in place as a way to encourage and reward the qualified employees' (including directors') contributions to the Group's results and business development, which was in line with industry practice. In addition, the Group allocated resources for providing continuing education and training for management and other employees to help improve their skills and knowledge continuously.

PROSPECTS

The PRC slaughtering and meat processing industry experienced a rapid growth in recent years. In 2006, the industry realized a gross value of total industrial output of RMB270.1 billion, increasing almost 22% over the preceding year. We expect the growth momentum will continue for the second half of 2007. As pork is the primary meat of choice among Chinese consumers, the pork consuming market is expected to continue to grow rapidly and provide the Group with substantial development opportunities.

Management Discussion and Analysis

We expect the hog price to remain at a relatively high level in the second half of 2007. In order to alleviate the tension between hog demand and supply, and to procure a healthy development in hog breeding, the Chinese government has implemented various measures to encourage farmers to breed hogs. Such measures include providing insurance subsidy for breeding reproductive sow and increasing financial supports for epidemic prevention. In addition, the PRC government is committed to regulating the industry which will accelerate industry consolidation. We expect new regulations related to slaughtering will be promulgated in the near future. As such, small-scale slaughtering enterprises with low hygiene standard will fade out, while those with solid capability will have more development opportunities.

Yurun Food, as one of the largest meat products manufacturers in the PRC, benefits from its strong brand recognition, nationwide production network, mature and efficient supply chain management, extensive marketing channels, as well as strong research and development capability for new products. The Group will continue to implement the following strategies in order to maximize the return to its shareholders:

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- Leverage on the market opportunities in the upgrading of consumer mix in large and medium cities in China, and strengthen Yurun Food's market position and established image as a "healthy, quality, tasty and high-end" brand through advertising in mainstream media, so as to achieve rapid sales growth of LTMP and chilled pork products over the next 3 to 5 years;
- On the backdrop of the expected consolidation in the meat processing sector towards an industry characterized with a reasonable concentration of large-scale and efficient enterprises, we will take advantage of the favourable government policies to further increase our upstream and downstream capacities through acquisition and green field and brown field projects, laying down a solid foundation to catch up with the increasing market demand for our products;
- Further strengthen our research and development, continued promotions on high value-added products, as well as sales force in middle-end and high-end markets, and leverage our market-orientated pricing mechanism to ensure a generally stable level of gross margin; and
- Continue to develop new markets and increase both breadth and depth of our market coverage to take advantage of the regional economic development trend of gradual development from the coastal area to inland regions and the deepening of urbanization in China.

Other Information

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.070 (equivalent to approximately RMB0.070) per ordinary share (2006: HK\$0.042). Further announcement regarding the payable and the related book close dates will be made in due course.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, 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:

Interest in shares and underlying shares of the Company and its associated corporation

Name of Directors	Company/name of associated corporation	Capacity	Nature of interest	Interest in ordinary shares	Interest in underlying shares ⁽²⁾	Total	Approximate percentage of the issued ordinary shares in such corporation
Zhu Yicai ("Mr. Zhu")	Company	Interest of a controlled corporation	Personal	749,658,900 ⁽¹⁾	—	749,658,900	51.63%
	Willie Holdings Limited ("Willie Holdings")	Beneficial owner	Corporate	100 ⁽¹⁾	—	100	100%
Zhu Yiliang	Company	Beneficial owner	Personal	—	5,000,000	5,000,000	0.34%
Zhang Yuanfei	Company	Beneficial owner	Personal	—	5,300,000	5,300,000	0.37%
Feng Kuande	Company	Beneficial owner	Personal	—	5,000,000	5,000,000	0.34%
Ge Yuqi	Company	Beneficial owner	Personal	—	5,000,000	5,000,000	0.34%

Notes:

- (1) Willie Holdings is owned as to 93.41% by Mr. Zhu and 6.59% by Ms. Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. Mr. Zhu is taken to be interested in these shares and the shares of the Company held by Willie Holdings by virtue of Part XV of the SFO.
- (2) The interests in underlying shares represent the interests in share options granted on 10 November 2006 pursuant to the Company's share option scheme, details of which are set out in the section headed "Share Option Scheme" below.
- (3) None of the directors of the Company held any short position in the shares, underlying shares of equity derivatives or debentures of the Company.

Other Information

Save as disclosed above, as of 30 June 2007, 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.

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

As of 30 June 2007, so far as is known to the directors and chief executive of the Company, the interests or short positions of substantial shareholders/other persons other than directors and chief executives of the Company 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:

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Shares and underlying shares of the Company

Name	Capacity	Nature of Interest	Number of shares ⁽¹⁾	Approximate percentage of the issued ordinary shares
Willie Holdings	Beneficial owner	Corporate interest	749,658,900 (L)	51.63%
Ms. Wu	Interest of spouse	Family interest	749,658,900 (L) ⁽²⁾	51.63%
The Goldman, Sachs & Co. LLC	Interest of a controlled corporation	Corporate interest	183,819,096 (L) 179,139,400 (S)	12.66% 12.34%
AllianceBernstein L.P.	Investment Manager	Corporate interest	122,656,000 (L)	8.45%
	Interest of a controlled corporation	Corporate interest	38,352,000 (L)	2.64%

Notes:

(1) The letters "L" and "S" denote the person's long position and short position in such shares, respectively.

(2) Willie Holdings held 749,658,900 shares of the Company as of 30 June 2007. Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu. Ms. Wu is taken to be interested in these shares by virtue of the SFO.

Save as disclosed above, as of 30 June 2007, 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.

Other Information

SHARE OPTION SCHEME

Pursuant to the resolution passed by the shareholders of the Company on 10 September 2005, a share option scheme (“Share Option Scheme”) was unconditionally approved and adopted on 3 October 2005. Details of the share options outstanding as of 30 June 2007 under the Share Option Scheme are as follows:

Name or category of participant	Number of share options				As of 30 June 2007	Option period ⁽²⁾
	As of 1 January 2007 ⁽¹⁾	Granted during the period	Exercised during the period	Lapsed during the period		
Directors						
Zhu Yiliang	5,000,000	—	—	—	5,000,000	10.11.2006 — 09.11.2016
Zhang Yuanfei	5,300,000	—	—	—	5,300,000	10.11.2006 — 09.11.2016
Feng Kuande	5,000,000	—	—	—	5,000,000	10.11.2006 — 09.11.2016
Ge Yuqi	5,000,000	—	—	—	5,000,000	10.11.2006 — 09.11.2016
Bi Guoxiang	2,000,000	—	—	—	— ⁽³⁾	10.11.2006 — 09.11.2016
Subtotal	22,300,000 ⁽⁴⁾	—	—	—	20,300,000 ⁽⁴⁾	
Employees (other than directors)						
In aggregate	17,750,000	—	—	(500,000)	17,250,000	10.11.2006 — 09.11.2016
Others						
In aggregate	—	—	—	—	2,000,000 ⁽³⁾	10.11.2006 — 09.11.2016
Subtotal	17,750,000	—	—	(500,000)	19,250,000	
Total	40,050,000	—	—	(500,000)	39,550,000	

Notes:

- (1) All share options were granted on 10 November 2006 and the exercise price is HK\$7.460.
- (2) Subject to the satisfaction of other conditions such as performance targets of the Group and/or individual grantee, if any, as set out in the individual offer letters, options will be vested in four equal batches, i.e., 25% of the options will be vested after the first, second, third and fourth anniversaries, respectively of the date of grant after the publication of the results of the relevant financial year.
- (3) The share options under “Others” represent share options granted to Mr. Bi Guoxiang prior to his resignation as director on 12 April 2007. The Board has resolved to keep the share options of Mr. Bi in view of his past contributions to the Group. Therefore, Mr. Bi’s share options have been re-categorised as “Others” in the above table.
- (4) The share options represent personal interest held by the relevant directors as beneficial owners.
- (5) The closing price of the shares of the Company immediately before the date of grant (as of 9 November 2006) was HK\$7.580.
- (6) No share options were cancelled under the Share Option Scheme during the period.

Other Information

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2007.

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 2007.

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 2007.

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 2007.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 29 August 2007