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

Yurun BRAND new life

yurun 雨润 TM

大众肉联

福润®

旺润 Wang Run TM

2008
Interim Report

Contents

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)
Sun Yanjun

Independent Non-executive Directors

Zheng Xueyi
Kang Woon
Gao Hui

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Lee Wing Sze, Rosa *HKICPA, FCCA*

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM11
Bermuda

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

53rd Floor
Bank of China Tower
1 Garden Road
Hong Kong

AUDITORS

KPMG

LEGAL ADVISORS

As to Hong Kong Law
Norton Rose Hong Kong
As to Bermuda law
Conyers Dill & Pearman

PRINCIPAL BANKERS

DBS Bank Ltd., Hong Kong Branch
Bank of Communications Co., Ltd.
China Construction Bank Corporation
Bank of China Limited
Industrial and Commercial Bank of China Limited
Huishang Bank

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

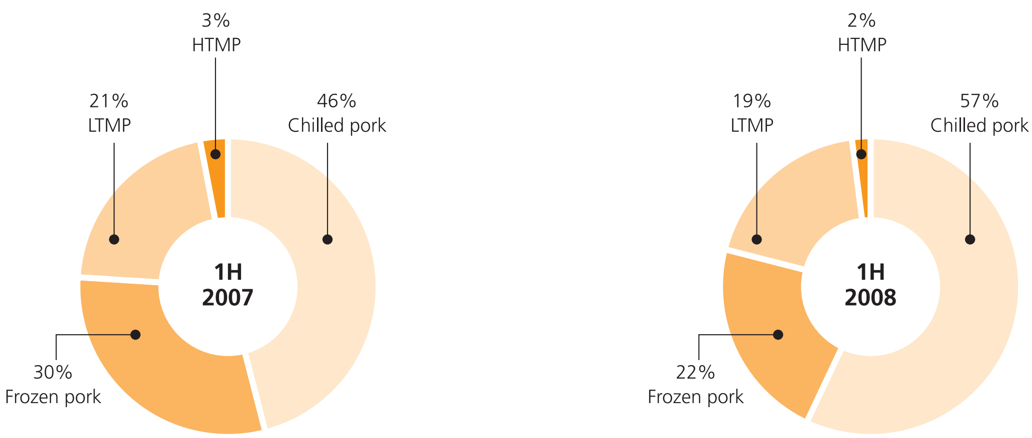
WEBSITE

www.yurun.com.hk

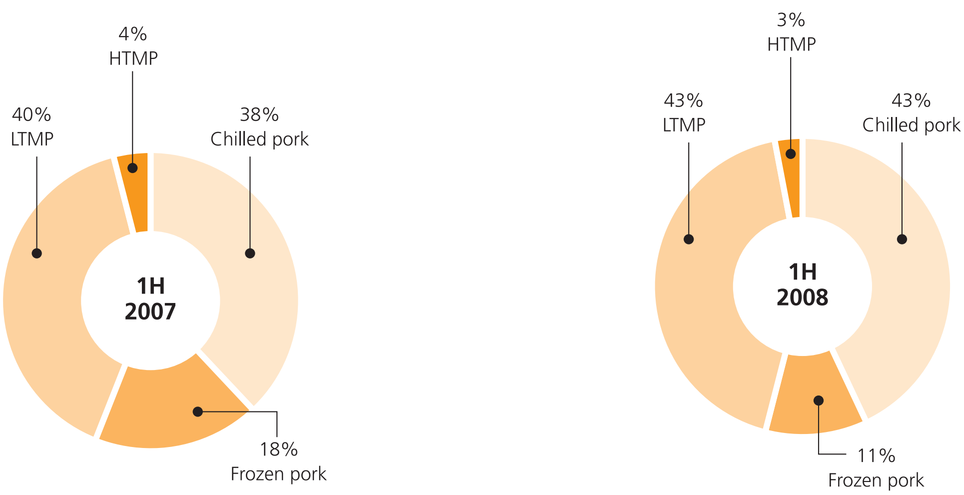
Financial Highlights

	For the six months ended 30 June		
	2008 HK$ in million (Unaudited)	2007 HK$ in million (Unaudited)	**Growth**
Turnover	**6,043**	3,450	75.2%
Gross profit	**821**	512	60.3%
Profit attributable to equity holders	**672**	393	70.9%
Diluted earnings per share (HK$)	**0.435**	0.270	61.1%

- The Group maintained robust revenue growth as turnover increased by 75.2%.
- Gross profit and profit attributable to equity holders increased 60.3% and 70.9% respectively, demonstrating a strong growth momentum.
- Diluted earnings per share rose sharply for a 61.1% increase.



Contribution to Turnover by Product Lines (before inter-segment elimination)



Contribution to Gross Profit by Product Lines (before inter-segment elimination)

Consolidated Income Statement

For the six months ended 30 June 2008 - unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2008 $'000	2007 $'000
Turnover	2	**6,043,452**	3,449,646
Cost of sales		**(5,222,671)**	(2,937,654)
Gross profit		**820,781**	511,992
Other operating income	5	**189,036**	118,556
Distribution expenses		**(243,496)**	(137,147)
Administrative and other operating expenses		**(143,250)**	(86,231)
Results from operating activities		**623,071**	407,170
Finance income		**135,969**	17,445
Finance expenses		**(25,320)**	(6,056)
Net financing income	6(a)	**110,649**	11,389
Share of loss of an equity accounted investee (net of income tax)		**(498)**	(493)
Profit before income tax	6	**733,222**	418,066
Income tax expense	7	**(60,806)**	(24,493)
Profit for the period		**672,416**	393,573
Attributable to:			
Equity holders of the Company		**672,070**	393,215
Minority interests		**346**	358
Profit for the period		**672,416**	393,573
Earnings per share			
Basic (HK$)	9(a)	**0.440**	0.271
Diluted (HK$)	9(b)	**0.435**	0.270

The notes on pages 8 to 26 form part of this interim financial report.

Consolidated Balance Sheet

As at 30 June 2008 - unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2008 $'000	31 December 2007 $'000
Non-current assets			
Property, plant and equipment	10	**2,425,210**	1,779,261
Investment property		**229,450**	219,585
Lease prepayments		**860,950**	722,662
Investment in an equity accounted investee		**3,216**	3,504
Non-current prepayments		**349,290**	233,425
Deferred tax assets		**12,272**	12,554
		3,880,388	2,970,991
Current assets			
Inventories		**954,551**	681,813
Other investments		**239,504**	1,073
Current portion of lease prepayments		**18,489**	15,451
Trade and other receivables	11	**699,484**	708,745
Income tax recoverable		**8,210**	3,718
Pledged deposits		**25,212**	29,728
Cash and cash equivalents	12	**1,686,945**	1,965,966
		3,632,395	3,406,494
Current liabilities			
Bank loans		**619,598**	267,571
Finance lease liabilities		**499**	459
Trade and other payables	13	**781,410**	755,958
Amounts due to related companies	16(c)	**1,242**	—
Income tax payable		**26,122**	19,021
		1,428,871	1,043,009
Net current assets		**2,203,524**	2,363,485
Total assets less current liabilities		**6,083,912**	5,334,476

Consolidated Balance Sheet

As at 30 June 2008 - unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2008 $'000	31 December 2007 $'000
Non-current liabilities			
Bank loans		**716,739**	826,430
Finance lease liabilities		**188,307**	177,206
Deferred tax liabilities		**31,741**	—
		936,787	1,003,636
Net assets		**5,147,125**	4,330,840
Equity			
Share capital		**153,057**	152,695
Reserves		**4,789,764**	3,986,480
Total equity attributable to equity holders of the Company		**4,942,821**	4,139,175
Minority interests		**204,304**	191,665
Total equity		**5,147,125**	4,330,840

Approved and authorised for issue by the board of directors on 26 August 2008.

Zhu Yicai	**Zhang Yuanfei**
Director	*Director*

The notes on pages 8 to 26 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008 - unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company										
	Note	Share capital $'000	Share premium $'000	Capital surplus $'000	Merger reserve $'000	PRC statutory reserves $'000	Fair value reserve $'000	Exchange reserve $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2007		145,195	1,626,126	3,887	(113,806)	82,160	—	93,450	611,706	2,448,718	12,456	2,461,174
Foreign currency translation		—	—	—	—	—	—	60,058	—	60,058	333	60,391
Profit for the period		—	—	—	—	—	—	—	393,215	393,215	358	393,573
Share based payment		—	—	—	—	—	—	—	13,998	13,998	—	13,998
Deferred tax recognised in reserve		—	—	—	—	—	—	—	(4,607)	(4,607)	—	(4,607)
Dividends approved and paid during the period	8(b)	—	—	—	—	—	—	—	(60,982)	(60,982)	—	(60,982)
At 30 June 2007		145,195	1,626,126	3,887	(113,806)	82,160	—	153,508	953,330	2,850,400	13,147	2,863,547
At 1 January 2008		152,695	2,389,491	3,887	(113,806)	191,846	(959)	301,416	1,214,605	4,139,175	191,665	4,330,840
Shares issued under share option scheme	14	362	31,850	—	—	—	—	—	(5,199)	27,013	—	27,013
Foreign currency translation		—	—	—	—	—	—	219,183	—	219,183	12,293	231,476
Profit for the period		—	—	—	—	—	—	—	672,070	672,070	346	672,416
Share based payment		—	—	—	—	—	—	—	7,799	7,799	—	7,799
Dividends approved and paid during the period	8(b)	—	—	—	—	—	—	—	(122,419)	(122,419)	—	(122,419)
At 30 June 2008		153,057	2,421,341	3,887	(113,806)	191,846	(959)	520,599	1,766,856	4,942,821	204,304	5,147,125

The notes on pages 8 to 26 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008 - unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2008 $'000	2007 $'000
Cash generated from operations		**382,596**	391,511
Tax paid		**(26,427)**	(17,210)
Net cash from operating activities		**356,169**	374,301
Net cash used in investing activities		**(878,769)**	(343,119)
Net cash from/(used in) financing activities		**149,295**	(88,025)
Net decrease in cash and cash equivalents		**(373,305)**	(56,843)
Cash and cash equivalents at 1 January	12	**1,965,966**	843,956
Effect of exchange rate fluctuation on cash held		**94,284**	10,781
Cash and cash equivalents at 30 June	12	**1,686,945**	797,894

The notes on pages 8 to 26 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

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 2008 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 ("IASB"). It was authorised for issuance on 26 August 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 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 2007.

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 2007 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 27.

The financial information relating to the financial year ended 31 December 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 9 April 2008.

The Company changed its presentation currency from Renminbi to Hong Kong dollars, which is the Company's functional currency, in 2007. Comparative financial information has been re-translated to Hong Kong dollars. All financial information presented in Hong Kong dollars has been rounded to the nearest thousand.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

2. TURNOVER AND SEGMENT INFORMATION

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.

	For the six months ended 30 June							
	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Revenue from external customers	**4,638,232**	2,568,853	**1,405,220**	880,793	**—**	—	**6,043,452**	3,449,646
Inter-segment revenue	**514,545**	237,242	**—**	—	**(514,545)**	(237,242)	**—**	—
Segment revenue	**5,152,777**	2,806,095	**1,405,220**	880,793	**(514,545)**	(237,242)	**6,043,452**	3,449,646
Segment results	**468,299**	284,472	**169,896**	141,671	**—**	—	**638,195**	426,143
Unallocated income and expenses							**34,221**	(32,570)
Profit for the period							**672,416**	393,573

3. SEASONALITY OF OPERATIONS

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

4. BUSINESS COMBINATIONS

(a) Keshan Meat Processing Factory*

On 30 June 2008, the Group acquired the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Keshan Meat Processing Factory from Heilongjiang Province Keshan Local County Government （黑龍江省克山縣人民政府）, at a cash consideration of $11,000. Details of Keshan Meat Processing Factory are as follows:

Name of company	Principal activities	Results contributed by the acquired business from the date of acquisition to 30 June 2008 $'000
Keshan Meat Processing Factory 克山肉聯廠	Slaughtering, production and sale of chilled and frozen meat	101,987

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

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 10)	67,594	59,243	8,351
Other non-current assets	34,013	33,898	115
Other net current assets	391	391	—
Net identifiable assets acquired	101,998	93,532	8,466
Consideration	(11)		
Negative goodwill arising on acquisition (note 5)	101,987		

For the six months ended 30 June 2008, the fair values to be assigned to the identifiable assets and liabilities can only be determined provisionally. Management is in the midst of reassessing the fair values of the identifiable assets and liabilities at the acquisition date. Management would recognise any adjustments to the provisional values of the acquired identifiable assets and liabilities on a retrospective basis from the acquisition date before 30 June 2009. The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2008. Keshan Meat Processing Factory 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.

4. BUSINESS COMBINATIONS *(Continued)*

(b) Xinyu Runhe Meat Product Co., Ltd* ("Xinyu Runhe")

On 5 January 2007, the Group acquired a 100% equity interest of the Xinyu Runhe at a cash consideration of $70,693,000. 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** $'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	41,239

* 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 $'000	**Fair value adjustments** $'000	**Pre-acquisition carrying amounts** $'000
Property, plant and equipment (note 10)	45,078	24,366	20,712
Lease prepayments	48,345	20,941	27,404
Other net current liabilities	(22,730)	984	(23,714)
Net identifiable assets acquired	70,693	46,291	24,402
Cash acquired	(1,197)		
Net cash outflow	69,496		

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 Hong Kong dollars)

4. BUSINESS COMBINATIONS *(Continued)*

(c) 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 (山東省商河縣經濟貿易局), at a cash consideration of $100,000 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 $'000
Huaxin 華信食品廠	Slaughtering, production and sale of chilled and frozen meat	58,894

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

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

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (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.

4. BUSINESS COMBINATIONS *(Continued)*

(d) Lixian Huatai Meat Product Co., Ltd.* ("Lixian Huatai")

On 14 February 2007, the Group acquired a 100% equity interest of Lixian Huatai at a cash consideration of $59,048,000. 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 $'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	(518)

* 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 $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 10)	57,639	25,406	32,233
Lease prepayments	20,305	9,635	10,670
Other net current liabilities	(18,896)	1,092	(19,988)
Net identifiable assets acquired	59,048	36,133	22,915
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.

4. BUSINESS COMBINATIONS *(Continued)*

(e) Dujiangyan Xiangrui Food Co., Ltd.* ("Dujiangyan Xiangrui")

On 24 May 2007, the Group acquired a 100% equity interest of Dujiangyan Xiangrui at a cash consideration of $100,660,000. 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 $'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	(510)

* 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 $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Property, plant and equipment (note 10)	58,374	8,503	49,871
Lease prepayments	55,387	—	55,387
Other net liabilities	(13,101)	—	(13,101)
Net identifiable assets acquired	100,660	8,503	92,157
Cash acquired	(1,385)		
Net cash outflow	99,275		

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

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2008	2007
	$'000	$'000
Government subsidies	**66,029**	59,200
Recognition of negative goodwill arising on business combinations (note 4)	**101,987**	49,976
Rental income	**8,956**	505
Sales of scrap	**1,584**	1,194
Others	**10,480**	7,681
	189,036	118,556

6. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2008	2007
	$'000	$'000
(a) Net financing income:		
Interest on bank and other loans wholly repayable within five years	**21,455**	2,600
Bank charges	**516**	393
Interest on lease obligation	**3,349**	3,063
Foreign exchange gain	**(112,653)**	(8,087)
Interest income on held-to-maturity investments	**(9,386)**	—
Interest income from bank deposits	**(13,930)**	(9,358)
	(110,649)	(11,389)

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

6. PROFIT BEFORE INCOME TAX *(Continued)*

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

	Six months ended 30 June	
	2008	2007
	$'000	$'000
(b) Other items:		
Reversal of impairment losses on trade and other receivables	**(1,053)**	(3,688)
Depreciation	**54,452**	36,112
Operating lease charges in respect of land use rights and premises		
- minimum lease payments	**6,818**	1,006
- contingent rent	**3,304**	1,745
Loss on disposal of property, plant and equipment	**176**	1,041
Amortisation of lease prepayments	**8,124**	3,302

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
	$'000	$'000
Current tax expense	**28,009**	24,195
Deferred tax expense	**32,797**	298
	60,806	24,493

(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 2008 and 2007.

7. INCOME TAX EXPENSE *(Continued)*

(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 25% during the six months ended 30 June 2008 (30 June 2007: 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 following three years. According to the new PRC tax law and its interpretation rules which are effective from 1 January 2008 ("new PRC tax law"), the tax holiday is deemed to start from 1 January 2008, even if the companies are not yet turning a profit and the unutilised tax holidays can continue until expiry.

(ii) 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% equity interest owned by a State-Level Agricultural Leading Enterprise is also entitled to an 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.

According to the new PRC tax law, State-Level Agricultural Leading Enterprises and their subsidiaries are no longer eligible to full exemption from PRC enterprise income tax. Instead, enterprises engaged in the primary processing of agricultural products will be exempted from PRC enterprise income tax. However, the detailed interpretation rules regarding the preferential tax policies (e.g. details of what operations can be qualified as primary processing of agricultural products under the new PRC tax law) have yet to be made public. Based on certain interpretations issued before the announcement of the new PRC tax law, the management expects that slaughtering operations of the Group may be qualified as primary processing of agricultural products under the new PRC tax law and therefore would be entitled to exemption from PRC enterprise income tax.

(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% for the remaining years through 2010.

7. INCOME TAX EXPENSE *(Continued)*

(d) Under the new PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax treaty between the PRC and Hong Kong, investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Pursuant to the grandfathering treatments of the new PRC tax law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

In addition, under the new PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered as a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. Since most of the Group's management is currently located in the PRC, the Group may be subject to PRC income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise may be exempted from this tax, but there is no guarantee that the Group will qualify for this exemption.

(e) The Group's consolidated effective tax rate for the six months ended 30 June 2008 is 8.3% (six months ended 30 June 2007: 5.9%). The change in effective tax rate is mainly due to the provision of withholding tax on profits generated by the Group's PRC subsidiaries since 1 January 2008, detailed in note 7(d).

8. DIVIDENDS

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2008	2007
	$'000	$'000
Interim dividend proposed after the balance sheet date of $0.110 per share (six months ended 30 June 2007: $0.070 per share)	**168,363**	101,637

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	
	2008	2007
	$'000	$'000
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period, of $0.080 per share (year ended 31 December 2006: $0.042 per share)	**122,419**	60,982

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 $672,070,000 (six months ended 30 June 2007: $393,215,000) and the weighted average number of ordinary shares of 1,528,050,000 (2007: 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 $672,070,000 (six months ended 30 June 2007: $393,215,000) and the diluted weighted average number of ordinary shares of 1,544,821,000 (2007: 1,456,565,000).

10. PROPERTY, PLANT AND EQUIPMENT

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2008 are as follows:

	Six months ended 30 June	
	2008	2007
	$'000	$'000
Cost of acquisitions	**507,637**	136,728
Acquisitions through business combinations (note 4)	**67,594**	185,799
Disposals (net carrying amount)	**5,884**	2,872
Disposals through derecognition of finance lease (net carrying amount)	**—**	19,988

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

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 2008 $'000	31 December 2007 $'000
Within 30 days	**345,447**	382,055
31 days to 90 days	**98,083**	99,959
91 days to 180 days	**16,028**	16,027
Over 180 days	**1,473**	3,315
Total debtors and bills receivable, net of impairment loss	**461,031**	501,356
Value-added tax ("VAT") recoverable	**174,449**	132,013
Deposits, prepayments and other receivables	**64,004**	75,376
	699,484	708,745

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. As at 30 June 2008, amounts due from related companies of $3,615,000 (31 December 2007: $1,507,000) are included in trade debtors (Note 16(b)).

12. CASH AND CASH EQUIVALENTS

	30 June 2008 $'000	31 December 2007 $'000
Cash and bank balances	**1,686,945**	1,965,966

13. TRADE AND OTHER PAYABLES

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

	30 June 2008 $'000	31 December 2007 $'000
Within 30 days	**255,966**	231,829
31 days to 90 days	**76,352**	51,517
91 days to 180 days	**40,964**	33,964
Over 180 days	**20,525**	13,535
Total creditors and bills payable	**393,807**	330,845
Receipts in advance	**98,717**	118,130
VAT payable	**4,339**	2,112
Other payables and accruals	**284,547**	304,871
	781,410	755,958

As at 30 June 2008, amounts due to related companies of $10,824,000 (31 December 2007: $3,817,000) are included in trade creditors (note 16(c)).

14. SHARES ISSUED UNDER SHARE OPTION SCHEME

During the six months ended 30 June 2008, options were exercised to subscribe for 3,621,000 ordinary shares in the Company at an aggregate consideration of $27,013,000 of which $362,000 was credited to share capital and the remaining balance of $26,651,000 was credited to the share premium account. The fair value of the share options recognised in the retained earnings amounted to $5,199,000 has been transferred to the share premium account.

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

	30 June 2008 $'000	31 December 2007 $'000
Contracted for	**470,720**	244,739
Authorised but not contracted for	**974,565**	1,238,874
	1,445,285	1,483,613

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

16. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2008 and 2007, 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

Jiangsu Yurun Food Group Co. Ltd. ("Jiangsu Yurun Food Group") #
江蘇雨潤食品產業集團有限公司
Baiyin Yurun Meat Product Co., Ltd. #
白銀雨潤肉類食品有限公司
Beijing Yurun Food Co., Ltd. #
北京雨潤食品有限公司
Guangzhou Jinrun Food Co., Ltd. #
廣州錦潤食品有限公司
Jiangsu Wangrun Food Co., Ltd. #
江蘇旺潤食品有限公司
Liaoning Kaiyuan Yurun Meat Product Co., Ltd. #
遼寧省開原市雨潤肉食品有限公司
Nanjing Yurun Food Joint Stock Co., Ltd. #
南京雨潤食品股份有限公司
Neijiang Yurun Meat Product Co., Ltd. #
內江雨潤肉食品有限公司
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
Anhui Yurun Group Co., Ltd. #
安徽雨潤食品集團有限公司
Jiangsu Furun Meat Processing Co., Ltd. #
江蘇福潤肉類加工有限公司
Harbin Popular Meat-Packing Group Co., Ltd. #
哈爾濱大眾肉聯集團有限公司
Willie Holdings Limited ("Willie") #
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 the related parties.

* Itoham is an associate of the Group.

16. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Significant related party transactions

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

	Six months ended 30 June	
	2008	2007
	$'000	$'000
Sales of meat and by-product		
Anhui Xuerun	**3,590**	4,812
Anhui Enbi	**—**	1,049
Total	**3,590**	5,861
Sales of raw materials		
Anhui Xuerun	**2,262**	1,251
Itoham	**347**	605
Total	**2,609**	1,856
Purchases of raw materials		
Anqing Furun	**5,200**	1,008
Liaocheng Furun	**8,784**	5,728
Total	**13,984**	6,736
Purchases of finished goods		
Anhui Xuerun	**53,289**	38,736
Itoham	**1,883**	—
Total	**55,172**	38,736

(ii) The Group leases certain property, plant and equipment and land use rights owned by the related parties during the six months ended 30 June 2008. The rental paid or payable to the related parties amounted to $3,212,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: $3,240,000).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

16. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Significant related party transactions *(Continued)*

(iii) During the six months ended 30 June 2008, certain related parties made available their properties at a carrying value of $36,317,888 as at 30 June 2008 to the Group companies (as at 31 December 2007: $34,538,000). No rental is paid or payable by any of the group companies.

(iv) The Group leases an office premises from Willie during the six months ended 30 June 2008. The rental paid or payable to Willie and certain expenses borne by the Company amounted to $1,242,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

(v) During the six months ended 30 June 2008, the Group acquired a subsidiary from Jiangsu Yurun Food Group at a consideration of $172,000.

(vi) During the six months ended 30 June 2008 and 2007, Jiangsu Yurun Food Group granted a non-exclusive and non-transferable licence for the use of certain trademarks to the Group. No charge is paid or payable by any of the group companies.

(vii) During the six months ended 30 June 2007, the Group disposed of other investment at its carrying value of $1,000,000 to Jiangsu Yurun Food Group with no gain or loss on disposal.

(b) Amount due from related companies

	30 June 2008 $'000	31 December 2007 $'000
Trade		
Anhui Enbi	**132**	97
Anhui Xuerun	**3,483**	1,410
	3,615	1,507

16. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due to related companies

	30 June 2008 $'000	31 December 2007 $'000
Trade		
Anhui Xuerun	**6,501**	2,750
Anqing Furun	**1,174**	606
Liaocheng Furun	**1,725**	461
Itoham	**1,424**	—
	10,824	3,817
Non-trade		
Willie	**1,242**	—
Total	**12,066**	3,817

The amounts due to related parties are unsecured, interest free and have no fixed terms of repayment.

(d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2008 $'000	2007 $'000
Salaries and other emoluments	**3,106**	1,895
Contribution to retirement benefit schemes	**98**	93
Share-based payment	**6,232**	8,474
	9,436	10,462

17. SUBSEQUENT EVENT

On 25 August 2008, the Company obtained a three-year term loan banking facility of up to $450,000,000 for financing of the capital expenditure and general corporate funding requirements of the Group.

(Expressed in Hong Kong dollars)

18. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2008

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 2008. The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that except for International Accounting Standard 23 (Revised) Borrowing costs, which requires entities to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
IFRS 8, Operating segments	1 January 2009
IAS 1 (Revised), Presentation of financial statements	1 January 2009

The above amendments, new standards and interpretations have not been 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 2008.

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 3 to 26 which comprises the consolidated balance sheet of China Yurun Food Group Limited as of 30 June 2008 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

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 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

26 August 2008

Management Discussion and Analysis

INDUSTRY REVIEW

In the first half of 2008, there were significant developments in the meat processing and hog slaughtering industry in China that created numerous short-term benefits and long-term opportunities for pork processing companies.

During the period, inflation and surging raw material prices put pressure on domestic manufacturers' cost control as well as impacted consumer consumption. Responding to increasing inflationary pressures, the government of the People's Republic of China ("PRC") prioritised inflation control with emphases on quantity control and price stabilization. Specifically, the National Development and Reform Commission issued "The Implementation Measures for the Practice of Temporary Price-Intervention Measures on Some Important Commodities and Services" in January 2008, to exercise nationwide temporary price control over important products and services. This requires retailers and wholesalers to file price adjustments on pork and pork products.

The shortage of domestic hog supply, which contributed to the increase in domestic hog prices, continued to impact the industry in the first half of 2008. Since the end of last year to the beginning of 2008, the PRC government implemented a series of measures to increase domestic hog supply including the provision of subsidies to pig farmers to encourage the rearing of breeding hogs. The effects of these measures surfaced in the late second quarter of 2008. While the domestic hog supply was relatively tight in the first quarter of 2008, the hog output recovered moderately and the price started to stabilize during the second quarter of 2008. According to the Ministry of Agriculture, the national average domestic hog price was approximately RMB16.1 per kg in the second quarter of 2008, representing a decrease of approximately 3.6% when compared with that of approximately RMB16.7 per kg of the first quarter.

In addition to alleviating the domestic hog shortage, the PRC government further tightened the regulations to support the orderly development of the hog slaughtering industry. The PRC government revised a series of regulations which included the new version of "Administrative Regulations on Live Hog Slaughtering" and "Food Safety Regulations". The new version of "Administrative Regulations on Live Hog Slaughtering" became effective on 1st August, 2008. These regulations are expected to substantially influence the development of the entire industry. It is expected that small-scale slaughtering enterprises with low hygiene standards will be faded out under the stronger government control and increasing industry consolidation. This creates a unique opportunity for large-scale slaughtering enterprises with solid production capacities including the Group to rapidly strengthen its market penetration throughout China.

BUSINESS REVIEW

Despite the fact that some industry challenges remained in the first half of 2008, the Group maintained a robust revenue growth by leveraging its core advantages, such as its acclaimed premium "Yurun" brand, dominant position in the mid to high end markets, flexible pricing strategies, and highly experienced management team. Low temperature meat products ("LTMP") and chilled pork continued to be the main contributors to the Group's growth, the sales of which went up significantly compared to the same period last year.

Management Discussion and Analysis

Our well-established brand and sophisticated operating system are key contributors to the stable profit margin of the Group. During the period under review, we strengthened Yurun's premium brand position by expanding the marketing and sales efforts of the products and enhancing our advertising efforts with increased marketing on CCTV and various mobile media. Despite the current environment of tight domestic hog supply and high procurement costs, the Group was able to leverage its premium brand position to maintain its strong pricing power and procurement capabilities. The Group also benefited from its sophisticated management and operation including strategically established nationwide production network, highly efficient supply chain management system, and sound and flexible sales and marketing strategies.

Sales and Distribution

The Group continued to enhance overall sales and profitability through several measures which included focusing on the development of higher profit margins products and enriching its product mix. During the period under review, it also enhanced its flagship "Yurun" brand by strengthening the advertising and promotion efforts. As a result, the Group achieved outstanding sales for its LTMP and chilled pork products amid the competitive environment.

In the first half of 2008, sales of chilled pork were HK$3,728 million, a significant increase of 119.0% over the same period in 2007, representing 56.9% (first half of 2007: 46.2%) of the Group's total turnover before inter-segment elimination. Sales of LTMP was HK$1,273 million, an increase of 65.2% over the same period in 2007, representing 19.4% (first half of 2007: 20.9%) of the Group's total turnover before inter-segment elimination.

With respect to the target markets and distribution channels, the Group followed its existing strategy of relying on direct sales as major channel and distribution as secondary channel. The Group continued to focus on expanding its direct sales to supermarkets and chain stores and improving its distribution network so as to enhance the overall penetration rate. At the same time, the Group further strengthened its cooperation with upscale hotels and catering chains in an effort to further enhance profitability by increasing the sales of high profit margins products.

Production Facilities and Production Capacity

To satisfy the booming market demand for our products, the Group continued to expanding its production capacity through selective acquisitions, upgrading its production facilities and constructing new plants.

In the downstream business, the Group focused on increasing market coverage, eliminating bottlenecks and upgrading key production facilities. During the period under review, the new plants in Nanjing and Maánshan commenced operations. Annual production capacity of the Group's downstream meat processing business increased by 10,000 tons from the end of 2007 to 228,000 tons by the end of the first half of 2008. Moreover, certain meat processing factories are under construction or renovation and the capacity will be improved significantly after these projects are completed by the end of this year.

The upstream segment's market coverage in the Northeastern region was enhanced with the completion of the Shenyang factory. By the end of the first half of 2008, the Group's annual slaughtering capacity was 14.55 million heads, representing an increase of 500 thousand heads from the end of 2007. The Group continually strives to expand its production capacity actively in the second half of 2008. As at the date of this report, the Group already completed three acquisitions located in Heilongjiang province, Gansu province and Hebei province. The Group expects to meet its target upstream production capacity for 2008 once the acquisitions and upgrading projects are completed in the second half of the year.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's turnover reached HK$6,043 million in the first half of 2008, an increase of 75.2% over the same period in 2007 of HK$3,450 million. The Group also recorded a net profit of HK$672 million (first half of 2007: HK$393 million), up 70.9% from the corresponding period in 2007. Diluted earnings per share was HK$0.435, representing an increase of 61.1% from HK$0.270 in the same period last year.

Turnover

Processed Meat Products

During the period under review, the turnover of processed meat products reached HK$1,405 million (first half of 2007: HK$881 million), up 59.5% from the corresponding period in 2007. The processed meat products maintained a strong growth momentum despite the challenging market environment as a result of the Group's strong brand position, effective marketing strategies, strong pricing power, continuous optimization of the product mix and launch of new higher end products.

Turnover of LTMP in the first half of 2008 reached HK$1,273 million, an increase of 65.2% from that of the corresponding period in 2007 of HK$771 million. LTMP was again the major revenue driver in the processed meat segment accounting for approximately 90.6% (first half of 2007: 87.5%) of the total turnover from this segment. Turnover of high temperature meat products ("HTMP") was HK$132 million (first half of 2007: HK$110 million), accounting for approximately 9.4% (first half of 2007: 12.5%) of the total turnover from the processed meat segment.

Chilled and Frozen pork

Taking advantage of the Group's strategic nationwide layout, the Group managed to increase its slaughtering volume slightly in the first half of 2008 as compared to the same period last year despite the relatively tight hog supply. Moreover, with the strong brand recognition, the Group was able to implement its market-based pricing strategy and rapidly adjusted the price of chilled pork in response to the increase of live hog prices.

In the first half of 2008, total sales generated from the upstream segment (before inter-segment elimination) reached HK$5,153 million, an increase of 83.6% from the same period in 2007. Total sales generated from chilled pork products was approximately HK$3,728 million, an increase of 119.0% from that in the same period last year, representing 72.4% (first half of 2007: 60.7%) of the turnover from the upstream segment. The turnover of frozen pork products reached HK$1,425 million, an increase of 29.1% from the turnover in the first half of last year, representing 27.6% (first half of 2007 : 39.3%) of the turnover from the upstream segment.

Gross profit and gross profit margin

The Group's gross profit increased by 60.3% from HK$512 million in the first half of 2007 to HK$821 million in the first half of 2008. The Group's gross profit margin decreased slightly by 1.2 percentage points from 14.8% in the first half of 2007 to 13.6% in the first half of 2008. The slight decline in gross margin was mainly due to the increase in percentage of total turnover derived from the upstream segment which traditionally has a relatively lower gross margin than that of the downstream segment.

Management Discussion and Analysis

For the downstream meat processing segment, gross profit margin for LTMP was 27.5%, an increase of 0.5 percentage point compared with that of last year. Gross profit margin for HTMP was 18.5%, an increase of 0.2 percentage point compared with the gross profit margin in the same period last year. Despite the high live hog price during the period, the Group managed to increase the overall gross profit margin for the downstream segment by 0.8 percentage point to 26.7% from 25.9% last year. This was primarily attributed to the Group's timely price adjustment of the LTMP and ability to optimise its product mix. Moreover, the Group's inventory management policies enable it to maintain relatively stable cost of raw materials of LTMP.

For the upstream segment, the gross profit margin of chilled and frozen pork was 9.5% and 6.4% respectively, a slight drop of 2.0 and 1.7 percentage points respectively compared with those of the same period in 2007. The overall gross profit margin was 8.6%, representing 1.5 percentage points lower than the gross margin of 10.1% in the first half of 2007. While the fluctuation of domestic hog prices and temporary pricing lag imposed challenges, the Group made its best efforts to maintain its market-based pricing strategy. The gross profit margin remained relatively stable as a result of its recognized brand name, optimising production scale, ability to rapidly respond to market conditions and strong pricing power.

Other operating income

Other operating income mainly includes government subsidies and negative goodwill. During the period, the Group had other operating income of HK$189 million (first half of 2007: HK$119 million), primarily due to the subsidies of HK$66 million (first half of 2007: HK$59 million) granted by the PRC government to support the Group's business development efforts and negative goodwill as a result of acquisitions amounting to HK$102 million (first half of 2007: HK$50 million).

Operating expenses

Operating expenses include distribution expenses, administrative expenses and other operating expenses. During the period, the operating expenses of the Group were HK$387 million, an increase of 73.1% from the same period last year of HK$223 million which was largely due to the Group's increased marketing efforts, higher transportation costs due to the surging fuel prices, and increased staffing costs as a result of its business expansion. Operating expenses during the period represented 6.4% of the Group's turnover, a decrease of 0.1 percentage point compared to 6.5% in the same period last year. The decline in operating expenses as a percent of total turnover demonstrates the Group's ability to increase its economies of scale while rapidly expanding its business.

Operating profit

In the first half of 2008, the Group's operating profit was HK$623 million, up 53.0% from that last year of HK$407 million.

Net Financing Income

The Group's net financing income for the first half of 2008 was HK$111 million compared to HK$11 million in the same period of 2007. The significant increase in net financing income is mainly attributable to the exchange gain arising from the translation of assets and liabilities denominated in foreign currency, interests from bank deposits and gain from investments exceeded the financial expenses of the bank loans.

Management Discussion and Analysis

Income Tax

For the six months ended 30 June 2008, the total income tax of the Group was HK$61 million (first half of 2007: HK$24 million). Effective tax rate for the period was 8.3% compared to 5.9% in the previous year. The increase in the effective tax rate arises mainly from the 5% withholding tax required under the new PRC tax law on dividend the Group received from its PRC subsidiaries in respect of its profits earned since 1 January 2008.

Net Profit

Taking all the above factors into account, the Group's net profit for the first half of 2008 increased significantly by 70.9% to HK$672 million from 2007 of HK$393 million. Net profit margin for the period was 11.1% (first half of 2007: 11.4%).

Financial Resources

The Group's major financial resources were cash inflows generated from operating activities. Bank loans and syndicated loan drawn during the period to support the mid and long term growth also contributed significantly to our reserves. Net cash from operating activities during the period amounted to HK$356 million, with cash balance of HK$1,687 million as at 30 June 2008, representing an increase of HK$889 million compared with that as at 30 June 2007.

As at 30 June 2008, the Group had HK$1,336 million outstanding loans. The Group continues to employ a prudent financial management policy by maintaining working capital for day to day operating activities and other funding requirements while ensuring it has sufficient capital to make strategic acquisitions and investments in production capacity.

Assets and Liabilities

As at 30 June 2008, the Group's total assets and total liabilities were HK$7,513 million and HK$2,366 million, respectively, representing an increase of HK$1,135 million and HK$319 million, respectively, from 31 December 2007.

As at 30 June 2008, total equity attributable to the equity holders of the Company was HK$4,943 million, an increase of HK$804 million from HK$4,139 million as at 31 December 2007.

As at 30 June 2008, 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 total equity attributable to equity holders excluding minority interests) was 23.6%, remained stable as compared to 23.5% of 31 December 2007.

Management Discussion and Analysis

Capital commitments

Details of the Group's capital commitments as at 30 June 2008 are reported in note 15 to the unaudited interim financial report.

HUMAN RESOURCES

As at 30 June 2008, the Group had 15,951 (31 December 2007: 14,328) employees in the PRC and Hong Kong. Total staff expenses for the period were HK$165 million, accounting for 3.0% of the Group's turnover (first half of 2007: HK$114 million, accounting for 3.3% of the Group's turnover).

The Group provides competitive remunerations and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with industry and market practice, the Group provides performance-based bonuses and share option scheme to encourage and reward the employees' contributions to the Group's results and business development. In addition, the Group allocates resources for providing continuing education and training for management and employees to improve their skills and knowledge.

OUTLOOK

The PRC government has been focusing on strengthening the regulation of the country's meat product processing industry. Moreover, with the implementation of the new version of "Administrative Regulations on Live Hog Slaughtering" on 1 August 2008, the Group expects that it will accelerate the consolidation of the meat product processing industry by closing down many small slaughtering factories which are unable to meet the new hygiene and food safety standards, thus creating new opportunities for leading enterprises, like Yurun Food, to rapidly capture additional market share.

Due to the implementation of certain policies to support the hog raising industry including financial subsidies to farmers for hog breeding in the second half of 2007, we expect the hog supply to increase significantly and for the hog price to trend down in the second half of 2008.

As one of the largest meat processing enterprises in the PRC, Yurun Food will strive to implement the following strategies:

- continue its marketing campaign in the mainstream media to further enhance our market position and brand awareness of its flagship "Yurun" brand in order to rapidly increase the market share of its LTMP and chilled meat in the next three to five years,

- expand the Group's upstream and downstream production capacity through acquisitions, green field and brown field projects to meet the rapid growth in market demand for products and to capture opportunities created from the accelerated industry consolidation driven by the government policy and the change of consumption pattern of Chinese consumers,

- continually improve the sales and development of high margins products in order to ensure stable profit margins, and

- continually expand distribution and sales channels to ensure market penetration and expansion.

Yurun Food strives to leverage on its core strategies, premium pork brands, nationwide production facilities, stable and effective supply chain management, extensive sales and distribution network and strong R&D to create maximum value for our shareholders.

Other Information

INTERIM DIVIDEND

The board of directors of the Company has resolved to declare an interim dividend of HK$0.110 per share for the six months ended 30 June 2008 (six months ended 30 June 2007: HK$0.070) which shall be payable on or about 23 September 2008 to shareholders whose names appear on the register of members of the Company on 16 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 10 September 2008 to Tuesday, 16 September 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 September 2008.

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

As at 30 June 2008, the number of issued ordinary shares of the Company was 1,530,573,650; and the interests and short positions of the Directors, chief executive of the Company and their respective associates 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 of Hong Kong Limited ("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

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	674,658,900[(1)]	—	674,658,900	44.08%
	Willie Holdings Limited ("Willie Holdings")	Beneficial owner	Corporate	100[(1)]	—	100	100%
Zhu Yiliang	Company	Beneficial owner	Personal	—	4,300,000	4,300,000	0.28%
Zhang Yuanfei	Company	Beneficial owner	Personal	—	4,440,000	4,440,000	0.29%
Feng Kuande	Company	Beneficial owner	Personal	—	5,000,000	5,000,000	0.33%
Ge Yuqi	Company	Beneficial owner	Personal	—	4,650,000	4,650,000	0.30%

Notes:

(1) These shares were held by Willie Holdings. 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 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 held any short position in the shares, underlying shares of equity derivatives or debentures of the Company.

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executive of the Company or their respective associates 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 at 30 June 2008, so far as is known to the Directors and chief executive of the Company, the interests or short positions of substantial shareholders (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:

Name of interested party	Number of shares	Nature of shares	Approximate percentage of shareholding
Willie Holdings	674,658,900(1)	Long position	44.08%
Ms. Wu	674,658,900(1)	Long position	44.08%
The Goldman, Sachs & Co. LLC	183,819,096(2)	Long position	12.01%
	179,139,400(2)	Short position	11.70%
AllianceBernstein L.P.	161,650,000(3)	Long position	10.56%
JPMorgan Chase & Co.	91,833,883(4)	Long position	6.00%

Other Information

Notes:

(1) These shares represent the same block of shares held by Willie Holdings as beneficial owner. Willie Holdings is owned as to 93.41% by Mr. Zhu and as to 6.59% by Ms. Wu. Ms. Wu, being the spouse of Mr. Zhu, in the capacity of interest of spouse, is deemed to be interested in the shares by virtue of the SFO.

(2) The Goldman, Sachs & Co. LLC was interested in these shares through its interests in controlled corporations. The long position included derivative interests in 88,348,696 shares of the Company which were derived from unlisted and physically settled derivatives. The short position included derivative interests in 116,726,550 shares of the Company which were derived from unlisted and physically settled derivatives.

(3) AllianceBernstein L.P. was interested in 140,178,000 shares in its capacity as investment manager and was interested in 21,472,000 shares through its interests in controlled corporations.

(4) These shares were held by JPMorgan Chase & Co. and corporations controlled by it in the respective capacity as detailed below:

Capacity	Number of shares
Beneficial owner	429,880
Investment manager	24,489,000
Approved lending agent/Custodian	66,915,003

Save as disclosed above, as at 30 June 2008, 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 at 30 June 2008 under the Share Option Scheme are as follows:

	Number of share options					
Name or category of participant	As at 1 January 2008 [(1)]	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2008	Option period [(2) & (3)]
Directors						
Zhu Yiliang	5,000,000	—	(700,000)	—	**4,300,000**	10.11.2006 – 09.11.2016
Zhang Yuanfei	5,300,000	—	(860,000)	—	**4,440,000**	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	—	(350,000)	—	**4,650,000**	10.11.2006 – 09.11.2016
Subtotal	20,300,000	—	(1,910,000)	—	**18,390,000**[(4)]	
Employees (other than directors)						
In aggregate	19,250,000	—	(1,711,000)	(1,200,000)	**16,339,000**	10.11.2006 – 09.11.2016
Subtotal	19,250,000	—	(1,711,000)	(1,200,000)	**16,339,000**	
Total	39,550,000	—	(3,621,000)	(1,200,000)	**34,729,000**	

Notes:

(1) All share options were granted on 10 November 2006 and the exercise price is HK$7.460.

(2) The first batch of share options is subject to a restricted period starting from the date of grant, i.e., 10 November 2006 until the date of announcement of the audited financial statements of the Company for the year ended 31 December 2007.

(3) 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.

(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 at 9 November 2006) was HK$7.580.

(6) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$12.51.

(7) No share options were cancelled under the Share Option Scheme during the period.

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 or their respective associates to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Save as disclosed above, none of the Directors or the chief executive (including their spouses and children under the age of 18) during the six months ended 30 June 2008 held any interest in, or were granted any right to subscribe for, the securities of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Other Information

COMPLIANCE WITH CONTINUING DISCLOSURE REQUIREMENT UNDER CHAPTER 13 OF THE LISTING RULES

In compliance with the continuing disclosure requirements under Rule 13.21 of the Listing Rules, the Directors reported details of the facility agreements which included conditions relating to the specific performance of the controlling shareholder of the Company as follow:

On 2 November 2007, the Company entered into a facility agreement (the "2007 Facility Agreement") with a syndicate of banks for a 3-year term loan facility of up to US$135 million for the financing of the capital expenditure and general corporate funding requirements of the Company and its subsidiaries. As at 30 June 2008, the loan facility under the 2007 Facility Agreement had been fully drawn.

Pursuant to the terms of the 2007 Facility Agreement, it would be an event of default if, inter alia, Mr. Zhu and his family members, (i) cease to own, directly or indirectly, at least 35% of the shares in the Company or (ii) cease to be the single largest shareholder of the Company; or if Mr. Zhu ceases to be the chairman of the board of directors of the Company. If such (or any other) event of default occurs, the facility may immediately be cancelled, all of the loan outstanding under the facility, together with accrued interest, may immediately be declared due and payable and, upon such declaration, be payable on demand.

On 25 August 2008, the Company entered into a facility agreement (the "2008 Facility Agreement") with a syndicate of banks for a 3-year term loan facility of up to HK$450 million for the financing of the capital expenditure and general corporate funding requirements of the Company and its subsidiaries.

Pursuant to the terms of the 2008 Facility Agreement, it would be an event of default if, inter alia, Mr. Zhu and his family members, (i) cease to own, directly or indirectly, at least 30% of the shares in the Company or (ii) cease to be the single largest shareholder of the Company; or if Mr. Zhu ceases to be the chairman of the board of directors of the Company. If such (or any other) event of default occurs, the facility may immediately be cancelled, all of the loan outstanding under the facility, together with accrued interest, may immediately be declared due and payable and, upon such declaration, be payable on demand.

As at the date of this report, no loan facility under the 2008 Facility Agreement had been drawn.

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 to the Listing Rules during the six months ended 30 June 2008.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as its own code of conduct regarding the Directors' securities transactions. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

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 2008.

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 2008.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 26 August 2008