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 雨润

INTERIM REPORT 2009

食品之安全是道德工程

You Trust Because We Care

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Yicai *(Chairman)*
Zhu Yiliang *(Chief Executive 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

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
Iu, Lai & Li Solicitors & Notaries

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
Huishang Bank Corporation Limited
Agricultural Bank of China
China Merchant 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

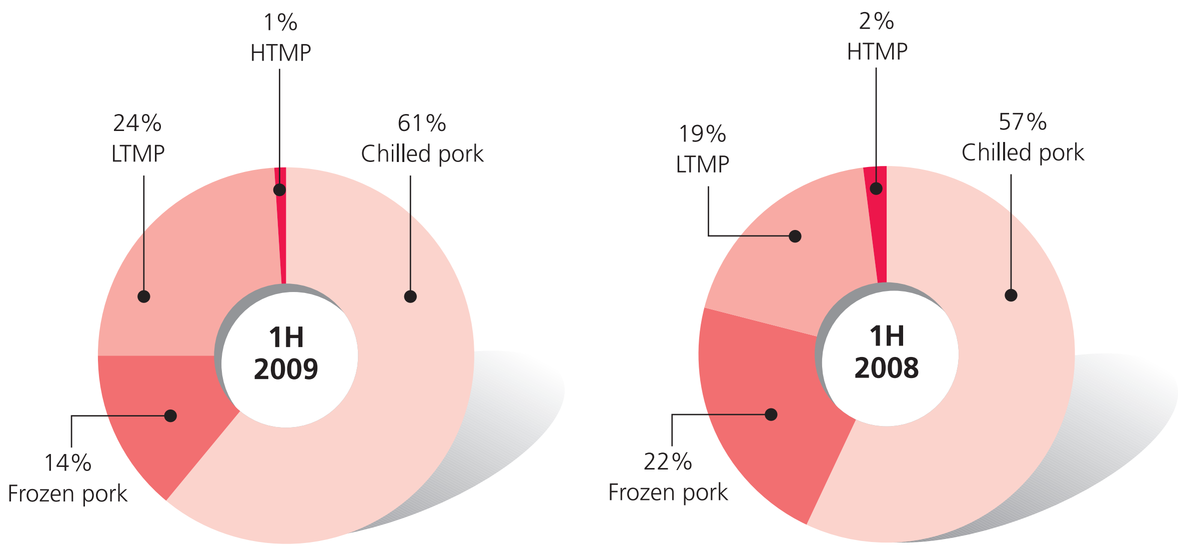
Financial Highlights

	For the six months ended 30 June		
	2009 **HK$ in million** **(Unaudited)**	2008 HK$ in million (Unaudited)	Growth
Gross profit	**976**	821	18.9%
Profit attributable to equity holders	**841**	615†	36.9%
Diluted earnings per share *(HK$)*	**0.545**	0.398†	36.9%
Gross profit margin	**16.7%**	13.6%	3.1 percentage points
Net profit margin	**14.4%**	10.2%	4.2 percentage points

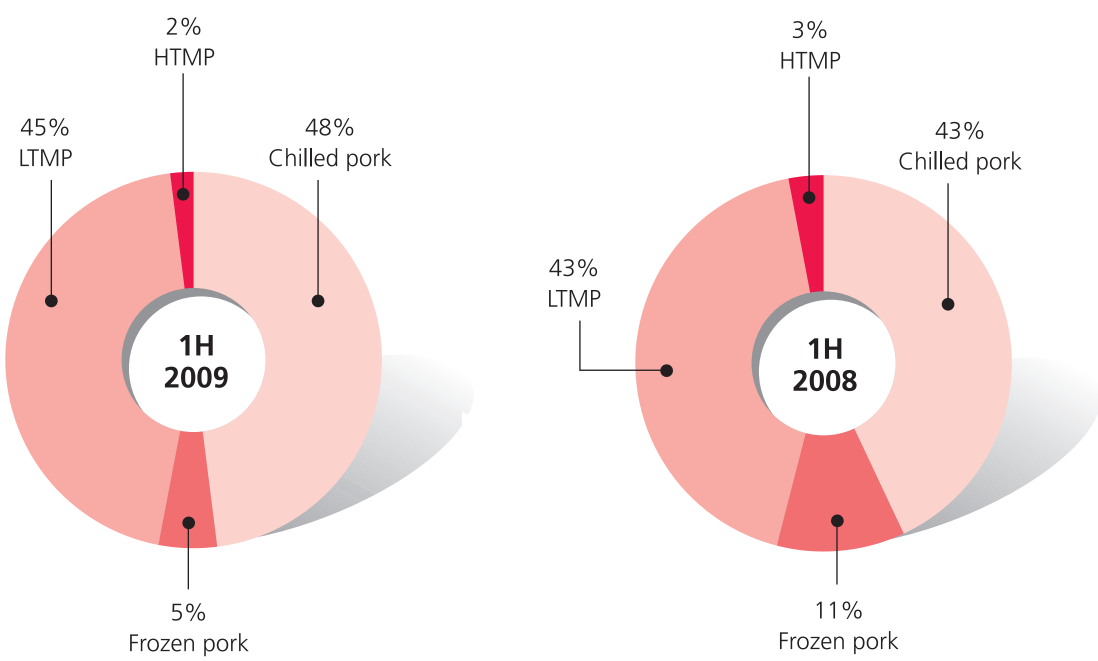
- Gross profit and profit attributable to equity holders increased by 18.9% and 36.9% respectively, demonstrating the Group's ability to maintain strong growth momentum against substantial drop in live hog price.
- Diluted earnings per share rose sharply by 36.9% as compared to the same period last year.
- Gross profit margin and net profit margin significantly increased by 3.1 percentage points and 4.2 percentage points respectively.

† Revised based on 2008 audited financial statements, details of which please refer to note 21 to this interim financial report.

Financial Highlights



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



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

Management Discussion and Analysis

INDUSTRY OVERVIEW

The economic environment was still full of challenges in the first half of 2009 (the "Review Period"). The adverse impact of the financial tsunami remained and the global economy faced threat of recession. However, as a consumer goods industry, meat processing industry maintained stable growth amid the economic downturn. In addition, the Chinese economy gradually recovered as a result of the RMB4 trillion economic stimulus plan implemented by the Central Government. It was expected that the overall economic performance would improve in the second half of 2009. In view of the promising economic prospects, Yurun Food, a leading player in the meat products industry, is full of confidence that its business will achieve steady growth in future.

During the Review Period, the global outbreak of H1N1 influenza initially raised public concerns over consumption of pork products. The market, however, promptly regained confidence after clarification by the World Health Organization that pork consumption would not transmit the disease. It has always been the policy of Yurun Food to adopt stringent quality control. We had closely monitored the development of the disease and had ensured that we could deliver products of the highest quality to our consumers. Therefore, Yurun Food's business operations were not affected by the H1N1 influenza pandemic during the Review Period, and hog slaughtering volume increased significantly as compared to the same period last year.

Live hog price continuously fell for the first half of the year. In June 2009, the Chinese government increased nationwide frozen pork reserves up to 120,000 tons in accordance with the "Contingency Plan on Preventing Excessive Drop in Hog Price" so as to protect the interests of hog breeders, to prevent rapid drop in hog price, to increase breeders' incentives to raise livestock and to strengthen hog supply in future.

During the Review Period, the Chinese government continued to promote systematic development of hog slaughtering industry by implementing a series of laws and regulations, such as the "Administrative Provision for Live Pig Slaughtering" and "Food Safety Law". Large-scale slaughtering enterprises with high hygienic standards were awarded with certification while those unqualified small-scale slaughtering enterprises were forced out with a view to enhancing the overall hygienic and safety standards of the industry and accelerating the industry consolidation.

BUSINESS REVIEW

In the first half of 2009, the Group maintained stable business growth despite market volatility and temporarily setback caused by the H1N1 influenza outbreak. Low temperature meat products ("LTMP") and chilled pork products which had higher margin continued to be the key drivers to the steady growth of profits of the Group amid the challenging economic environment.

In addition, benefiting from the proactive expansion of slaughtering capacity and the improvement in nation-wide production network in recent years, the Group was able to further achieve economies of scale in production. With its flexible and scientific inventory management, the Group significantly grew its overall gross margin despite volatile hog prices in the first half of the year.

Product Quality and R&D

Product quality has always been the priority of Yurun Food. We implemented stringent internal quality control over every production process from procurement, production, sales to logistics. In particular, the Group closely monitored the hog quality. We selected the finest hog species and carried out detailed inspections to ensure that the required hygienic standards were complied with. Leveraging on its stringent quality control, Yurun Food successfully established an image of superior safety and quality among consumers, maintained its competitive advantages in the market and further strengthened its market leadership position.

Management Discussion and Analysis

In addition, the Group focused on research and development of mid-to-high end products. The R&D team of the Group included over 300 members. In the first half of 2009, the team continued to develop competitive products and made the Group the leader in food consumption trends. Given the increasing urban population of middle class in China, the demand for high quality meat products increased. As a result, the total sales of the upstream and downstream businesses of the Group rose significantly during the Review Period.

Sales and Distribution

In order to maintain stable sales and profitability, the Group continued to focus on developing products with high profit margins and enriching its product mix. In the first half of 2009, the turnover of chilled pork reached HK$3.926 billion, representing an increase of 5.3% over the corresponding period last year, accounting for 61.2% (1H2008: 56.9%), of the total turnover prior to inter-segment elimination and 82.0% (1H2008: 72.4%) of the total turnover of the upstream business segment. The turnover of LTMP was HK$1.536 billion, representing an increase of 20.6% over the corresponding period last year, accounting for 23.9% (1H2008: 19.4%), of the total turnover prior to inter-segment elimination and 94.5% (1H2008: 90.6%) of the total turnover of the downstream business segment .

Production Facilities and Production Capacity

To tap the growing market demand for Yurun's products, the Group continued to increase its production capacity through selective acquisitions, greenfield and upgrading projects.

The Group strived to expand its downstream meat processing business during the past few years. As at the end of the first half of 2009, its production capacity reached 258,000 tons, same as that as at the end of last year. The Group will continue the expansion in the second half or next year. Increasing market coverage, reducing bottlenecks and upgrading key production facilities would be the main focus.

With respect to its upstream slaughtering segment, the Group was well prepared for increasing production capacity by acquiring several production plants of which one had already commenced trial production in May 2009 and others would follow in the second half or next year. As at the end of the first half of 2009, the slaughtering capacity of the Group was 19.3 million heads per year, representing an increase of 1.25 million heads as compared to that as at the end of 2008.

FINANCIAL REVIEW

The Group recorded a turnover of HK$5.834 billion for the first half of 2009, representing a decrease of 3.5% from HK$6.043 billion of the same period last year. The prices of upstream chilled pork and frozen pork were determined according to market prices of live hogs. In the face of significant price decrease in live hog, the Group was able to increase its sales volume by 35.1% which has, to a large extent, offset the adverse impact of market price fluctuations. More importantly, the Group was successful in enhancing gross margin significantly, controlling cost effectively and maintaining strong growth in net profit. During the Review Period, the Group recorded a net profit of HK$841 million (1H2008: HK$615 million), up 36.9% from that of the same period last year. Diluted earnings per share was HK$0.545, representing a surge of 36.9% from HK$0.398 of the same period last year.

Management Discussion and Analysis

TURNOVER

Processed Meat Products

As at the end of the first half of 2009, the Group offered more than 1,200 types of processed meat products. During the Review Period, the sales of processed meat products reached HK$1.626 billion (1H2008: HK$1.405 billion), up 15.7% year on year. Despite the competitive environment, the Group achieved satisfactory growth on the back of its strong brand recognition, marketing promotion, improved product mix and new products with higher profit margins.

The turnover of LTMP was HK$1.536 billion for the first half of 2009, representing an increase of 20.6% from HK$1.273 billion of the corresponding period last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 94.5% (1H2008 : 90.6%) of the processed meat segment. The turnover of high temperature meat products ("HTMP") was HK$90 million (1H2008:HK$132 million), accounting for approximately 5.5% (1H2008:9.4%) of the total turnover of the processed meat segment.

Chilled and Frozen pork

Our successful strategic planning grew the slaughtering volume by 35.6% against the same period last year. The Group continued to expand market share and maintained strong competitive advantages and leading position in the industry. Moreover, with the prudent live hog procurement and flexible inventory management, the Group managed to achieve a significant increase in the gross margin of upstream business despite substantial fluctuation in live hog prices.

In the first half of 2009, the total sales generated from the upstream business (before inter-segment elimination) decreased by 7.1% to HK$4.789 billion of the same period last year. Sales of chilled pork increased by 5.3% to HK$3.926 billion, accounting for approximately 82.0% of the total turnover of the upstream business (1H2008: 72.4%). Sales of frozen pork decreased by 39.4% to HK$863 million, accounting for approximately 18.0% of the total turnover (1H2008: 27.6%) of the upstream business. The decrease in sales was due to the selling price adjustment resulting from the drop in hog price and the Group's defined strategy of lowering the proportion of frozen pork in the upstream slaughtering business.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 18.9% from HK$821 million in the first half of 2008 to HK$976 million in the first half of 2009. The gross profit margin of the Group increased by 3.1 percentage points from 13.6% to 16.7%. The increase in gross margin was mainly due to the increase in the proportion of sales of high margin LTMP and chilled pork.

With respect to the downstream products, the gross profit margin of LTMP was 28.4%, representing an increase of 0.9 percentage point from 27.5% in the same period last year. Gross profit margin of HTMP was 20.5%, representing an increase of 2.0 percentage points as compared to the corresponding period last year. Overall gross profit margin of the downstream segment was 28.0%, an increase of 1.3 percentage points from 26.7% in the same period last year. The increase was mainly attributable to the decline in procurement cost of live hog and to brand recognition and improved product mix, enabling the Group to increase sales of products with high margin and enhance gross margin.

Management Discussion and Analysis

With respect to the upstream business, the gross profit margin of chilled and frozen pork was 11.9% and 6.5% respectively (1H2008: 9.5% and 6.4% respectively). The overall gross profit margin was 10.9%, representing an increase of 2.3 percentage points from 8.6% in the first half of 2008. The increase in gross profit margin was mainly attributable to the proactive expansion in production capacity of the Group in recent years, which enabled the Group to achieve economies of scale against the backdrop of abundant hog supply during the Review Period. Such increase was also due to the strong brand recognition of Yurun and successful marketing strategies which further fuelled the market demand for chilled pork products.

Other Operating Income

Other operating income mainly included government subsidies and negative goodwill. During the Review Period, other operating income of the Group was HK$371 million (1H2008: HK$132 million), comprising subsidies of HK$230 million (1H2008: HK$66 million) granted by the Chinese government as incentives for business expansion and negative goodwill of HK$119 million (1H2008: HK$45 million) arising on acquisitions.

Operating Expenses

Operating expenses included distribution expenses, administrative expenses and other operating expenses. During the Review Period, the operating expenses of the Group were HK$398 million, representing an increase of 2.8% from HK$387 million in the same period last year. Operating expenses during the Review Period represented 6.8% of the turnover of the Group, only a slight increase of 0.4 percentage points as compared to 6.4% in the same period last year, demonstrating that the Group was able to control cost effectively amid rapid expansion during economic downturn.

Operating Profit

In the first half of 2009, the operating profit of the Group was HK$950 million, up 67.9% from HK$566 million in the same period last year.

Net Finance Expenses

The net finance expenses of the Group for the first half of 2009 were HK$24.8 million while the Group recorded a net finance income of HK$111 million in the first half of 2008. The exchange gains of HK$113 million recorded last year was a one-off gain, which was mainly arising from the translation of debts denominated in foreign currency as a result of appreciation of Renminbi.

Income Tax

The income tax expenses for the six months ended 30 June 2009 were HK$82 million, a slight increase from HK$61 million of the same period last year. The effective tax rate was 8.9% for the current period, a slight decrease from 9.0% of the same period last year.

Net Profit

Taking into account of all the above factors, the net profit of the Group soared 36.9% from HK$615 million in the first half of 2008 to HK$841 million in the first half of 2009. Net profit margin for the Review Period was 14.4%, representing an increase of 4.2 percentage points from 10.2% in the same period last year.

Management Discussion and Analysis

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities and bank loans. Cash inflow from operating activities in the first half of 2009 amounted to HK$644 million, which, combining a cash balance and pledged deposits of bank loan of HK$1.744 billion as at 30 June 2009, was of similar level as that of 31 December 2008.

As at 30 June 2009, the Group had outstanding loans of HK$2.561 billion, representing an increase of HK$633 million from HK$1.928 billion as at 31 December 2008. Bank loans were used for strategic acquisitions and investments in production facilities during the Review Period. The Group, however, maintained prudent financial management and retained sufficient working capital for day to day operating activities and other funding requirements.

Assets and Liabilities

As at 30 June 2009, the total assets and total liabilities of the Group were HK$10.349 billion and HK$4.350 billion respectively, representing an increase of HK$2.027 billion and HK$1.264 billion as compared to the total assets and total liabilities as at 31 December 2008, respectively.

As at 30 June 2009, the equity attributable to equity holders of the Company was HK$5.977 billion, representing an increase of HK$762 million from HK$5.215 billion as at 31 December 2008.

As at 30 June 2009, the gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the total equity) of the Group was 45.4%, an increase from 40.2% as at 31 December 2008. The net gearing ratio excluding the cash balance, time deposits and pledged deposits of bank loan was 16.4%.

Charges on Assets

As at 30 June 2009, certain properties and lease prepayments of the Group with a carrying amount of HK$45.00 million and HK$31.62 million respectively (31 December 2008: HK$45.72 million and HK$31.97 million respectively) were pledged against certain bank loans totalling HK$90.73 million (31 December 2008: HK$90.74 million). Bank loan facilities of the Group totalling HK$1.496 billion (31 December 2008: HK$1.848 billion), were secured by pledged deposits of HK$781 million (31 December 2008: HK$599 million).

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Save for those disclosed in this report, there were no significant investments held, nor material acquisitions and disposals of subsidiaries during the Review Period. There is no plan for material investments or capital assets as at the date of this report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group is exposed to currency risk on borrowings that are denominated in United States dollars, whilst substantially all the revenue-generating operations of the Group are transacted in Renminbi, the functional currency of the operating subsidiaries in the PRC, which is not freely convertible into foreign currencies. The Group actively monitors foreign exchange rate fluctuations to ensure that its net exposure is kept to an acceptable level. The Group has entered into forward contract in order to reduce the Group’s exposure to foreign currency risk but the extent of which was minimal.

Management Discussion and Analysis

Significant Subsequent Events

The Company issued 130 million new shares at a price of HK$13.23 per share in late July 2009. The net proceeds was approximately HK$1.675 billion and will be used for capacity expansion to capture business opportunities arising from sufficient hog supply and to cater for market demand. Net cash position is restored upon completion of the issue.

HUMAN RESOURCES

As at 30 June 2009, the Group had 14,608 (31 December 2008: 17,385) employees in the PRC and Hong Kong. During the Review Period, total staff cost was HK$209 million, accounting for 3.6% of the turnover of the Group.

The Group offered 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 also offered performance-linked bonus and a share option scheme to encourage and reward the employees. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

OUTLOOK

The first half of 2009 was very challenging to the pork industry due to the H1N1 influenza outbreak and fluctuation in hog price. Hog price in China, however, had re-bounded gradually since June 2009 after efforts of the Chinese government to increase frozen pork reserves. Farmers and breeders were motivated and encouraged to increase livestock, creating a strong foundation for domestic hog supply in future. It is expected that market demand for mid-to-high end meat products will increase due to the fact that the Chinese economy continues to recover and urban population increases and that purchasing habit of middle class shifts from traditional markets to modern supermarkets for quality meat products. Since the overall economic outlook is promising for the second half of 2009, it is expected that with a continued abundant supply of hogs, the Group is well positioned to expand the business operations steadily.

Meanwhile, as the market expects that hog price has reached bottom and will rebound in the second half of 2009, the Group plans to expand its production capacity to capture business opportunities and the increasing hog price. It is expected that annual slaughtering capacity will reach 30 million heads in 2010. Besides, the Group will strive to capture business opportunities arising from industry consolidation and strengthen its upstream and downstream businesses through mergers and acquisitions as and when appropriate. Since there is increasing concerns over food safety and H1N1 influenza, the Group will closely monitor the development of the disease and ensure the product quality by maintaining stringent quality control.

Looking forward, the Group will strive to capture business opportunities in the market, continue to enhance its brand competitiveness, expand market share and further its business development with its strong brand recognition, corporate image, strategic sales and distribution channels, successful capacity expansion plan, brilliant management team and strong government support.

Other Information

INTERIM DIVIDEND

The board of directors of the Company (the" Board") has resolved to declare an interim dividend of HK$0.150 per share for the six months ended 30 June 2009 (for the six months ended 30 June 2008: HK$0.110) which shall be payable on or about 28 October 2009 to shareholders whose names appear on the Register of Members of the Company ("Register of Members") on 16 October 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 14 October 2009 to Friday, 16 October 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 13 October 2009.

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

As at 30 June 2009, the number of issued ordinary shares of the Company was 1,535,862,650. 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 of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("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	43.93%
	Willie Holdings Limited ("Willie Holdings")	Beneficial owner	Corporate	100[1]	—	100	100%
Zhu Yiliang	Company	Beneficial owner	Personal	—	3,315,000	3,315,000	0.22%
Feng Kuande	Company	Beneficial owner	Personal	—	4,950,000	4,950,000	0.32%
Ge Yuqi	Company	Beneficial owner	Personal	—	3,160,000	3,160,000	0.21%

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 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 2009, 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 at 30 June 2009, 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 executive 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 issued shareholding
Willie Holdings	674,658,900[(1)]	Long position	43.93%
Ms. Wu	674,658,900[(1)]	Long position	43.93%
JPMorgan Chase & Co.	112,268,412[(2)]	Long position	7.31%
Capital Research and Management Company	77,238,000[(3)]	Long position	5.03%

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) 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	902,000
Investment manager	57,096,000
Approved lending agent/Custodian (lending pool)	54,270,412

(3) These interests were held in the capacity of investment manager.

Save as disclosed above, as at 30 June 2009, 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

The Company adopted a share option scheme ("Share Option Scheme") and the share options outstanding under the Share Option Scheme as at 30 June 2009 were as follows:

	Number of share options					
Name or category of participant	As at 1 January 2009[(1)]	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2009	Option period [(2) & (3)]
Directors						
Zhu Yiliang	4,300,000	—	(985,000)	—	**3,315,000**	10.11.2006 – 09.11.2016
Feng Kuande	5,000,000	—	(50,000)	—	**4,950,000**	10.11.2006 – 09.11.2016
Ge Yuqi	4,650,000	—	(1,490,000)	—	**3,160,000**	10.11.2006 – 09.11.2016
Subtotal	13,950,000	—	(2,525,000)	—	**11,425,000[(4)]**	
Employees (including ex-employees but excluding directors)						
In aggregate	20,287,000	—	(2,272,000)	(113,000)	**17,902,000**	10.11.2006 – 09.11.2016
Subtotal	20,287,000	—	(2,272,000)	(113,000)	**17,902,000**	
Total	34,237,000	—	(4,797,000)	(113,000)	**29,327,000**	

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$11.831.

(7) 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 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 follows:

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 capital expenditure and general corporate funding requirements of the Company and its subsidiaries. As at 30 June 2009, 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. If such 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.

The outstanding loan balance under the 2007 Facility Agreement was repaid in full on 27 August 2009.

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 capital expenditure and general corporate funding requirements of the Company and its subsidiaries. As at 30 June 2009, a loan facility HK$425.4 million under the 2008 Facility Agreement had been drawn and the availability of the undrawn loan amount has expired.

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. If such 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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2009.

Other Information

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 complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009, except for the issue of 4,797,000 shares of the Company under the Share Option Scheme.

In late July 2009, 130,000,000 new shares in the Company were placed to investors, details of which are set out in the Company's announcement dated 24 July 2009.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2009.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 9 September 2009

Review Report

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 16 to 40 which comprises the consolidated balance sheet of China Yurun Food Group Limited as of 30 June 2009 and the related consolidated income statement, statement of comprehensive income and 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 2009 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

9 September 2009

Consolidated Income Statement

For the six months ended 30 June 2009 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2009 $'000	2008 $'000
Turnover	4	**5,834,036**	6,043,452
Cost of sales		**(4,857,819)**	(5,222,671)
Gross profit		**976,217**	820,781
Other operating income	7	**370,997**	131,655
Distribution expenses		**(241,721)**	(243,496)
Administrative and other operating expenses		**(155,932)**	(143,250)
Results from operating activities		**949,561**	565,690
Finance income		**26,176**	135,969
Finance expenses		**(50,977)**	(25,320)
Net financing (expenses)/income	8(a)	**(24,801)**	110,649
Share of loss of an equity accounted investee (net of income tax)		**(24)**	(498)
Profit before income tax	8	**924,736**	675,841
Income tax expense	9	**(81,969)**	(60,806)
Profit for the period		**842,767**	615,035
Attributable to:			
Equity holders of the Company		**841,250**	614,689
Minority interests		**1,517**	346
Profit for the period		**842,767**	615,035
Earnings per share			
Basic (HK$)	11(a)	**0.549**	0.402
Diluted (HK$)	11(b)	**0.545**	0.398

The notes on pages 22 to 40 form part of this interim financial report. Details of dividends payable to equity holders of the Company are set out in note 10.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2009	2008
		$'000	$'000
Profit for the period		**842,767**	615,035
Other comprehensive income for the period (after tax and reclassification adjustments)			
Foreign currency translation differences for foreign operations		**(263)**	229,650
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax		**1,987**	—
		1,724	229,650
Total comprehensive income for the period		**844,491**	844,685
Attributable to:			
Equity holders of the Company		**842,979**	832,046
Minority interests		**1,512**	12,639
Total comprehensive income for the period		**844,491**	844,685

The notes on pages 22 to 40 form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2009 - unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2009 $'000	31 December 2008 $'000
Non-current assets			
Property, plant and equipment	12	**3,007,765**	2,608,267
Investment properties		**217,292**	220,831
Lease prepayments		**1,241,728**	1,083,832
Goodwill		**86,252**	86,268
Investment in an equity accounted investee		**2,890**	2,915
Non-current prepayments		**1,583,760**	1,052,535
Deferred tax assets		**9,204**	10,908
		6,148,891	5,065,556
Current assets			
Inventories		**859,078**	703,455
Other investments	13	**294,113**	1,134
Current portion of lease prepayments		**27,035**	23,074
Trade and other receivables	14	**1,274,398**	703,954
Income tax recoverable		**1,355**	16,546
Pledged deposits		**781,223**	598,525
Time deposits		**13,339**	—
Cash and cash equivalents	15	**949,225**	1,209,092
		4,199,766	3,255,780
Current liabilities			
Bank loans		**2,021,358**	1,095,049
Finance lease liabilities		**463**	496
Trade and other payables	16	**1,510,719**	902,846
Income tax payable		**12,122**	19,776
		3,544,662	2,018,167
Net current assets		**655,104**	1,237,613
Total assets less current liabilities		**6,803,995**	6,303,169

Consolidated Balance Sheet

At 30 June 2009 - unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2009 $'000	31 December 2008 $'000
Non-current liabilities			
Bank loans		**539,230**	833,062
Finance lease liabilities		**164,419**	177,967
Deferred tax liabilities		**101,585**	57,045
		805,234	1,068,074
Net assets		**5,998,761**	5,235,095
Equity			
Share capital		**153,586**	153,107
Reserves		**5,823,524**	5,061,849
Total equity attributable to equity holders of the Company		**5,977,110**	5,214,956
Minority interests		**21,651**	20,139
Total equity		**5,998,761**	5,235,095

Approved and authorised for issue by the board of directors on 9 September 2009.

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 22 to 40 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009 – 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 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	17	362	31,850	—	—	—	—	—	(5,199)	27,013	—	27,013
Total comprehensive income for the period		—	—	—	—	—	—	217,357	614,689	832,046	12,639	844,685
Share based payments		—	—	—	—	—	—	—	7,799	7,799	—	7,799
Dividends approved during the period	10(b)	—	—	—	—	—	—	—	(122,419)	(122,419)	—	(122,419)
At 30 June 2008		153,057	2,421,341	3,887	(113,806)	191,846	(959)	518,773	1,709,475	4,883,614	204,304	5,087,918
At 1 January 2009		**153,107**	**2,425,667**	**3,887**	**(112,202)**	**297,837**	**(1,932)**	**484,744**	**1,963,848**	**5,214,956**	**20,139**	**5,235,095**
Shares issued under share option scheme	17	**479**	**42,366**	**—**	**—**	**—**	**—**	**—**	**(7,060)**	**35,785**	**—**	**35,785**
Total comprehensive income for the period		**—**	**—**	**—**	**—**	**—**	**1,987**	**(258)**	**841,250**	**842,979**	**1,512**	**844,491**
Share based payments		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,170**	**6,170**	**—**	**6,170**
Dividends approved during the period	10(b)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(122,780)**	**(122,780)**	**—**	**(122,780)**
At 30 June 2009		**153,586**	**2,468,033**	**3,887**	**(112,202)**	**297,837**	**55**	**484,486**	**2,681,428**	**5,977,110**	**21,651**	**5,998,761**

The notes on pages 22 to 40 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009 - unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2009 $'000	2008 $'000
Cash generated from operations		**672,136**	382,596
Tax paid		**(28,182)**	(26,427)
Net cash generated from operating activities		**643,954**	356,169
Net cash used in investing activities		**(1,523,706)**	(878,769)
Net cash generated from financing activities		**619,996**	149,295
Net decrease in cash and cash equivalents		**(259,756)**	(373,305)
Cash and cash equivalents at 1 January	15	**1,209,092**	1,965,966
Effect of exchange rate fluctuation on cash held		**(111)**	94,284
Cash and cash equivalents at 30 June	15	**949,225**	1,686,945

The notes on pages 22 to 40 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1 REPORTING ENTITY

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

The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2009 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate.

2 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 issue on 9 September 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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.

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 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a 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 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. KPMG's independent review report to the board of directors is included on page 15.

The financial information relating to the financial year ended 31 December 2008 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 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2009.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 8, "Operating segments"

— IAS 1 (revised 2007), "Presentation of financial statements"

— Improvements to IFRSs (2008)

— Amendments to IAS 27, "Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate"

— Amendments to IFRS 7, "Financial instruments: Disclosures - improving disclosures about financial instruments"

— IAS 23 (revised 2007), "Borrowing costs"

— Amendments to IFRS 2, "Share-based payment - vesting conditions and cancellations"

The adoption of improvements to IFRSs (2008) and the amendments to IFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments is as follows:

— IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters and is more consistent with internal reporting provided to the Group's most senior executive management. As the Group's internal reporting to the Group's chief operating decision maker is disaggregated into segments based on products, the adoption of IFRS 8 has had no material impact on the general presentation of segment information.

— As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

— The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

— IAS 23 (revised 2007) requires that, effective from 1 January 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and has eliminated the option of immediate recognition of such borrowing costs as an expense. Previously, the Group immediately recognised all borrowing costs as an expense. In accordance with the transitional provisions in the standard, the Group will apply the new standard prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on and after the effective date. The change in accounting policy had no material impact on assets, profit or earnings per share in the interim period ended 30 June 2009.

4 TURNOVER AND SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by different product lines. On first-time adoption of IFRS 8, "Operating segments" and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable 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.

In accordance with IFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

— Segment assets include all tangible and intangible assets, interests in equity accounted for investees, non-current prepayments and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include finance lease liabilities and trade and other payables.

— Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

— The measure used for reporting segment profit is profit for the period.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

4 TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment results, assets and liabilities *(Continued)*

Revenue from external customers represents the 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.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	For the six months ended 30 June							
	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Revenue from external customers	**4,207,680**	4,638,232	**1,626,356**	1,405,220	**—**	—	**5,834,036**	6,043,452
Inter-segment revenue	**580,866**	514,545	**—**	—	**(580,866)**	(514,545)	**—**	—
Reportable segment revenue	**4,788,546**	5,152,777	**1,626,356**	1,405,220	**(580,866)**	(514,545)	**5,834,036**	6,043,452
Reportable segment profit	**700,685**	410,918	**266,492**	169,896	**—**	—	**967,177**	580,814
Unallocated income and expenses							**(124,410)**	34,221
Profit for the period							**842,767**	615,035

	30 June 2009 $'000	31 December 2008 $'000	**30 June 2009 $'000**	31 December 2008 $'000	**30 June 2009 $'000**	31 December 2008 $'000	**30 June 2009 $'000**	31 December 2008 $'000
Reportable segment assets	**6,352,112**	4,765,580	**1,949,303**	1,735,812	**—**	—	**8,301,415**	6,501,392
Deferred tax assets							**9,204**	10,908
Unallocated head office and corporate assets							**2,038,038**	1,809,036
Consolidated total assets							**10,348,657**	8,321,336

5 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

6 BUSINESS COMBINATIONS

Tenger (Henan) Livestock Technology Company Limited*

On 8 January 2009, the Group entered into an asset transfer agreement to acquire the entire business operations of slaughtering, production and sales of chilled and frozen meat together with the relevant assets of Tenger (Henan) Livestock Technology Company Limited from Henan Province Fugou Local County Government (河南省扶溝縣人民政府), at a cash consideration of $11,000. Details of Tenger (Henan) Livestock Technology Company Limited are as follows:

Name of company	Principal activities	Results contributed by the acquired business from the date of acquisition to 30 June 2009 $'000
Tenger (Henan) Livestock Technology Company Limited 騰爾（河南）牧業科技有限公司	Slaughtering, production and sale of chilled and frozen meat	117,661

* 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 12)	72,039	32,418	39,621
Lease prepayments	47,242	47,242	—
Net identifiable assets acquired	119,281	79,660	39,621
Less: consideration	(11)		
Negative goodwill arising on acquisition (note 7)	119,270		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2009. Tenger (Henan) Livestock Technology Company Limited 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 Hong Kong dollars)

6 BUSINESS COMBINATIONS *(Continued)*

Tengzhou Dongqi Meat Processing Factory*

On 10 February 2009, the Group entered into a share transfer agreement to acquire the entire equity interest of Tengzhou Dongqi Meat Processing Factory at a cash consideration of $181,904,000. Details of Tengzhou Dongqi 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 2009 $'000
Tengzhou Dongqi Meat Processing Factory 滕州東啓肉類加工有限公司	Slaughtering, production and sale of chilled and frozen meat	3,420

* 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 12)	157,563	114,941	42,622
Other non-current assets	23,999	23,999	—
Other net current assets	342	—	342
Net identifiable assets acquired	181,904	138,940	42,964
Consideration	181,904		

Management estimates that the consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2009.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

6 BUSINESS COMBINATIONS *(Continued)*

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	44,606

* 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 12)	19,032	10,681	8,351
Other non-current assets	25,276	25,161	115
Other net current assets	309	—	309
Net identifiable assets acquired	44,617	35,842	8,775
Less: consideration	(11)		
Negative goodwill arising on acquisition (note 7)	44,606		

For the six months ended 30 June 2008, the fair values to be assigned to the identifiable assets and liabilities could only be determined provisionally. Adjustments to reduce the provisional values of the acquired identifiable assets and liabilities totalling $57,381,000 were made on a retrospective basis from the acquisition date. Negative goodwill recognised during the period ended 30 June 2008 was also adjusted downward by an amount equal to the adjustment to the fair values.

The consolidated revenue and consolidated profit for the period ended 30 June 2008 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

7 OTHER OPERATING INCOME

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Government subsidies	**229,543**	66,029
Recognition of negative goodwill arising on business combinations (note 6)	**119,270**	44,606
Rental income	**11,070**	8,956
Sales of scrap	**1,609**	1,584
Others	**9,505**	10,480
	370,997	131,655

8 PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2009	2008
	$'000	$'000
(a) Net financing expenses / (income):		
Interest on bank and other loans wholly repayable within five years	**45,399**	21,455
Less: interest expense capitalised into properties under development	**(4,838)**	—
	40,561	21,455
Bank charges	**2,606**	516
Interest on lease obligation	**3,040**	3,349
Net foreign exchange gain	**(2,935)**	(112,653)
Interest income on held-to-maturity investments	**(2,588)**	(9,386)
Interest income from bank deposits	**(20,653)**	(13,930)
Impairment loss on available-for-sale financial assets	**1,932**	—
Change of fair value in financial derivatives	**2,838**	—
	24,801	(110,649)

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

8 PROFIT BEFORE INCOME TAX *(Continued)*

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

	Six months ended 30 June	
	2009	2008
	$'000	$'000
(b) Other items:		
Impairment losses/(reversal of impairment losses) on trade and other receivables	**1,765**	(1,053)
Amortisation of lease prepayments	**11,898**	8,124
Depreciation	**69,085**	54,452
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**7,473**	6,818
– contingent rent	**2,659**	3,304
Loss on disposal of property, plant and equipment	**1,852**	176

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Current tax expense	**35,726**	28,009
Deferred tax expense	**46,243**	32,797
	81,969	60,806

(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 2009 and 2008.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

9 INCOME TAX EXPENSE *(Continued)*

(c) Pursuant to the income tax rules and regulations of the People's Republic of China ("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 2009 (30 June 2008: 25%), 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. 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) All enterprises engaged in the primary processing of agricultural products are exempted from PRC enterprise income tax. As a result, the profits from slaughtering operations are exempted from PRC enterprise income tax for the six months ended 30 June 2009 and 2008.

(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. ("Xinjiang Yurun") is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for five years starting from its first profit-making year, followed by a reduced PRC enterprise income tax at 15% for the remaining years through 2010.

(d) Under the PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement between the PRC and Hong Kong, the 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. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

(e) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC enterprise income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

(f) The Group's consolidated effective tax rate for the six months ended 30 June 2009 is 8.9% (six months ended 30 June 2008: 9.0%).

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(Expressed in Hong Kong dollars)

10 DIVIDENDS

(a) Dividends payable to equity holders attributable to the interim period

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Interim dividend proposed after the balance sheet date of $0.150 per share (six months ended 30 June 2008: $0.110 per share)	**230,379**	168,363

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

(b) Dividends payable to equity holders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Final dividend in respect of the financial year ended 31 December 2008, approved during the following interim period, of $0.080 per share (year ended 31 December 2007: $0.080 per share)	**122,780**	122,419

11 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 $841,250,000 (six months ended 30 June 2008: $614,689,000) and the weighted average number of ordinary shares of 1,531,955,000 (2008: 1,528,050,000).

(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 $841,250,000 (six months ended 30 June 2008: $614,689,000) and the diluted weighted average number of ordinary shares of 1,542,164,000 (2008: 1,544,821,000) after adjusting the effect of deemed issue of shares under the Company's share option scheme.

12 PROPERTY, PLANT AND EQUIPMENT

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2009 are as follows:

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Acquisitions through business combinations (note 6)	**229,602**	19,032
Cost of other acquisitions	**247,775**	507,637
Disposals (net carrying amount)	**8,193**	5,884

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13 OTHER INVESTMENTS

	30 June 2009 $'000	31 December 2008 $'000
Held-to-maturity debt investments, unlisted	**286,119**	—
Available-for-sale financial assets, unlisted	**7,994**	1,134
	294,113	1,134

14 TRADE AND OTHER RECEIVABLES

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

	30 June 2009 $'000	31 December 2008 $'000
Within 30 days	**270,306**	293,330
31 days to 90 days	**130,906**	136,415
91 days to 180 days	**20,348**	14,195
Over 180 days	**1,883**	1,225
Total trade debtors, net of impairment loss	**423,443**	445,165
Bills receivable	**498,437**	—
Value-added tax ("VAT") recoverable	**251,727**	202,658
Deposits, prepayments and other receivables	**100,791**	56,131
	1,274,398	703,954

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. As at 30 June 2009, amounts due from related companies of $2,000 (31 December 2008: $2,205,000) are included in trade debtors (Note 19(b)).

15 CASH AND CASH EQUIVALENTS

	30 June 2009 $'000	31 December 2008 $'000
Cash and bank balances	**949,225**	1,209,092

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16 TRADE AND OTHER PAYABLES

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

	30 June 2009 $'000	31 December 2008 $'000
Within 30 days	**337,238**	379,923
31 days to 90 days	**41,023**	62,698
91 days to 180 days	**32,166**	28,613
Over 180 days	**13,762**	13,835
Total trade creditors	**424,189**	485,069
Bills payable	**497,870**	—
Receipts in advance	**98,712**	95,724
VAT payable	**1,632**	4,343
Amounts due to related companies (note 19(c))	**3,744**	3,942
Dividends payable	**122,780**	—
Derivative financial instruments	**2,837**	—
Other payables and accruals	**358,955**	313,768
	1,510,719	902,846

As at 30 June 2009, amounts due to related companies of $12,998,000 (31 December 2008: $21,783,000) are included in trade creditors (note 19(c)).

17 SHARES ISSUED UNDER SHARE OPTION SCHEME

During the six months ended 30 June 2009, options were exercised to subscribe for 4,797,000 (six months ended 30 June 2008: 3,621,000) ordinary shares in the Company at an aggregate consideration of $35,785,000 (six months ended 30 June 2008: $27,013,000) of which $479,000 (six months ended 30 June 2008: $362,000) was credited to share capital and the remaining balance of $35,306,000 (six months ended 30 June 2008: $26,651,000) was credited to the share premium account. The fair value of the share options recognised in the retained earnings amounting to $7,060,000 (six months ended 30 June 2008: $5,199,000) has been transferred to the share premium account.

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18 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	30 June 2009 $'000	31 December 2008 $'000
Contracted for	**243,972**	241,809
Authorised but not contracted for	**941,303**	277,904
	1,185,275	519,713

19 RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2009 and 2008, 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

Anqing Furun Poultry Product Co., Ltd. ("Anqing Furun") (note (i))
安慶福潤禽業食品有限公司

Anhui Xuerun Meat Product Co., Ltd. ("Anhui Xuerun") (note (iii))
安徽省雪潤肉食品有限公司

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

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

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

Harbin Popular Meat-Packing Group Co., Ltd. (note (i))
哈爾濱大眾肉聯集團有限公司

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

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

19 RELATED PARTY TRANSACTIONS *(Continued)*

Name of party *(Continued)*

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

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

Liaoning Kaiyuan Yurun Meat Product Co., Ltd. (note (i))
遼寧省開原市雨潤肉食品有限公司

Nanjing Jinfurun Food Co., Ltd. ("Jinfurun") (note (i))
南京金福潤食品有限公司

Nanjing Yurun Food Joint Stock Co., Ltd. (note (i))
南京雨潤食品股份有限公司

Willie Holdings Limited ("Willie") (note (i))

Itoham Foods Beijing Co., Ltd. ("Itoham") (note (ii))
伊藤食品（北京）有限公司

Notes:

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

(ii) Itoham is an associate of the Group.

(iii) Mr Zhu Yicai was the beneficial owner of Anhui Xuerun. He disposed the equity interest in Anhui Xuerun during the period.

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

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19 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Significant related party transactions

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

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Sales of meat and by-products		
Anhui Xuerun	**239**	3,590
Sales of raw materials		
Anhui Xuerun	**1,423**	2,262
Itoham	**424**	347
Total	**1,847**	2,609
Purchases of raw materials		
Anqing Furun	**6,869**	5,200
Liaocheng Furun	**11,575**	8,784
Total	**18,444**	13,984
Purchases of finished goods		
Anhui Xuerun	**19,128**	53,289
Itoham	**1,672**	1,883
Total	**20,800**	55,172

(ii) The Group leased certain property, plant and equipment and land use rights owned by the related parties during the six months ended 30 June 2009. The rental paid or payable to the related parties amounted to $3,174,000 for the six months ended 30 June 2009 (six months ended 30 June 2008: $3,212,000).

(iii) During the six months ended 30 June 2009, the contractual arrangement between the Group and Jinfurun was terminated. Upon termination of the contractual arrangement, the Group acquired certain machinery from Jinfurun at the carrying value of $971,000.

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19 RELATED PARTY TRANSACTIONS *(Continued)*

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

(iv) During the six months ended 30 June 2009, certain related parties made available their properties at a carrying value of $35,161,000 as at 30 June 2009 to the Group (as at 31 December 2008: $33,697,000). No rental is paid or payable by any of the group companies.

(v) The Group shared an office premises with Willie during the six months ended 30 June 2009. The rental paid or payable to Willie and certain expenses borne by the Company amounted to $1,252,000 for the six months ended 30 June 2009 (six months ended 30 June 2008: $1,242,000).

(vi) During the six months ended 30 June 2009 and 2008, 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 2008, the Group acquired a subsidiary from Jiangsu Yurun Food Group at a consideration of $172,000.

(b) Amount due from related companies

	30 June 2009 $'000	31 December 2008 $'000
Trade		
Anhui Xuerun	—	2,205
Itoham	**2**	—
	2	2,205

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19 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due to related companies

	30 June 2009 $'000	31 December 2008 $'000
Trade		
Anhui Xuerun	**—**	13,415
Anqing Furun	**4,676**	3,721
Liaocheng Furun	**6,457**	4,647
Itoham	**1,865**	—
	12,998	21,783
Non-trade		
Willie	**3,744**	2,492
Itoham	**—**	1,450
	3,744	3,942
Total	**16,742**	25,725

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	
	2009 $'000	2008 $'000
Salaries and other emoluments	**3,479**	3,106
Contribution to retirement benefit schemes	**139**	98
Share-based payment	**4,763**	6,232
	8,381	9,436

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20 SUBSEQUENT EVENT

On 28 July 2009, the Company raised $1,675,028,000 (net of expenses) by way of placing 130,000,000 new ordinary shares of the Company at a price of $13.23 per share.

21 COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised 2007), "Presentation of financial statements" and IFRS 8, "Operating segments", certain comparative figures have been adjusted to conform to the current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

During the year ended 31 December 2008, the initial accounting for the acquisitions of Keshan Meat Processing Factory and Changchun Food Group Company was determined provisionally. As required by IFRS 3, "Business combinations", comparative figures have been adjusted to recognise the adjustments to those provisional values as a result of completing the initial accounting as if the initial accounting had been completed on the respective acquisition dates. Certain assets items of Changchun Food Group Company as at 31 December 2008 have been reclassified as a result of completing the initial accounting. Further details on the acquisition of Keshan Meat Processing Factory are disclosed in note 6.