China Yurun Food Group Limited
中國雨潤食品集團有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 1068

INTERIM REPORT 2010

yurun 雨润

穩佔整合先機　雨潤再創高峰
Consolidation – New Era New Height

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Yicai *(Chairman)*
Zhu Yiliang *(Chief Executive Officer)*
Feng Kuande
Ge Yuqi
Yu Zhangli

Non-executive Directors

Jiao Shuge (*alias* Jiao Zhen)
Wang Kaitian
Li Chenghua

Independent Non-executive Directors

Gao Hui
Qiao Jun
Chen Jianguo

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

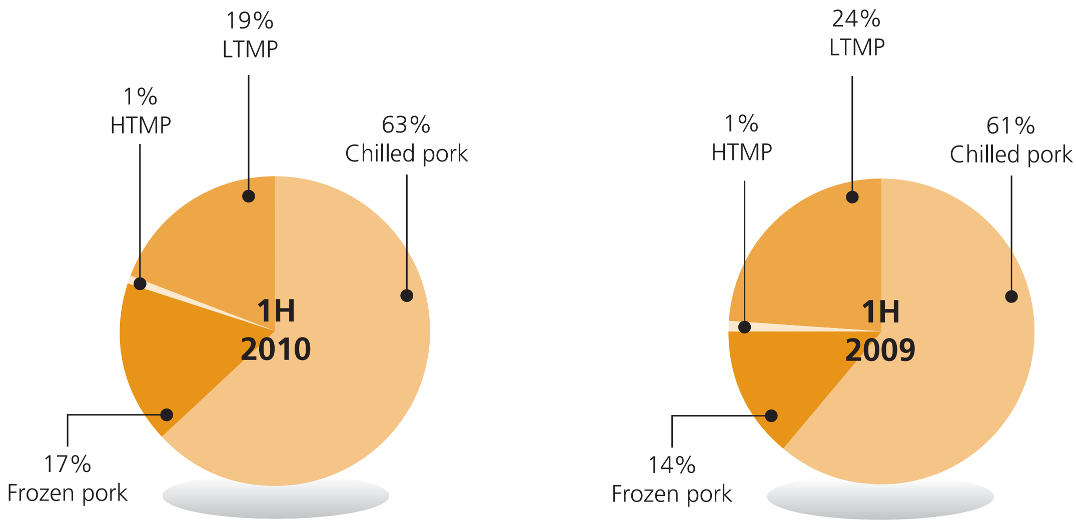
	For the six months ended 30 June		
	2010 **HK$ in million** **(Unaudited)**	2009 HK$ in million (Unaudited)	Growth
Turnover	**8,693**	5,834	49.0%
Gross profit	**1,345**	976	37.8%
Profit attributable to equity holders	**1,309**	841	55.7%
Basic earnings per share *(HK$)*	**0.762**	0.549	38.8%
Gross profit margin	**15.5%**	16.7%	Decreased by 1.2 percentage points
Net profit margin	**15.1%**	14.4%	0.7 percentage points

- Turnover for the period recorded a significant increase of 49.0%. Gross profit and profit attributable to equity holders increased by 37.8% and 55.7% respectively, demonstrating the Group's ability to maintain strong growth momentum against substantial drop in live hog price.

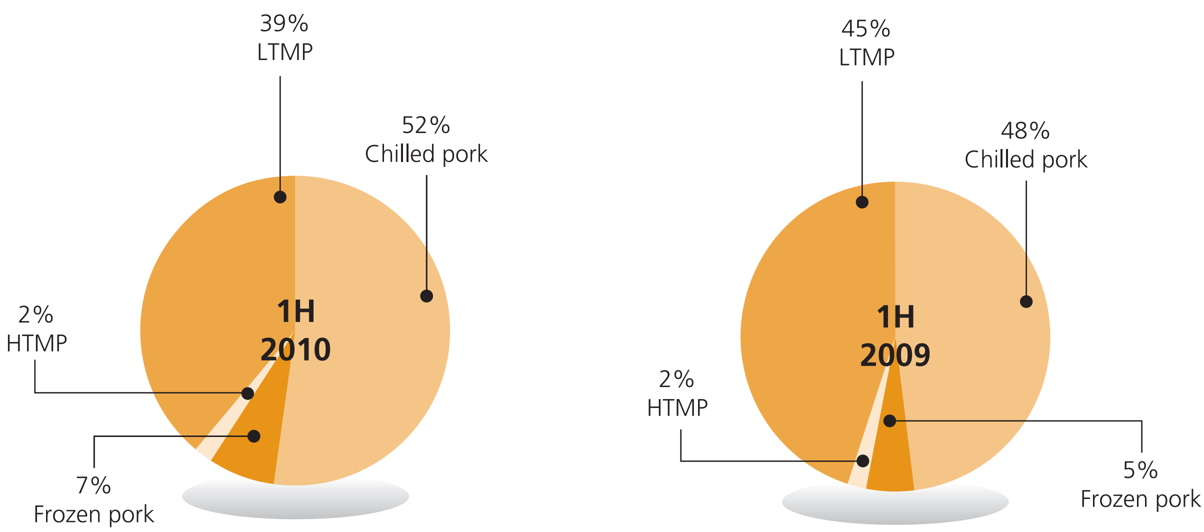
- Basic earnings per share rose by 38.8% as compared to the same period last year.

- Gross profit margin decreased by 1.2 percentage points which was primarily due to the increase in the proportion of upstream business.

- Net profit margin increased by 0.7 percentage points, reflecting the Group's success in cost control and increasing profitability.



Contribution to Turnover by Product Lines (including Internal Sales)



Contribution to Gross Profit by Product Lines (including Internal Sales)

Management Discussion and Analysis

INDUSTRY OVERVIEW

In the first half of 2010 (the "Review Period"), domestic consumption in China continued to be promising, which provided great support to the development of the Chinese meat product market. In addition, with its active expansion of production capacity as well as improvement of its nationwide capacity and market strategy in recent years, the Group maintained a sustainable business growth and market share enhancement to further strengthen its leading position in the Chinese hog slaughtering and pork product industries during the Review Period.

During the Review Period, hog price has been volatile. To ensure the healthy development of the nationwide hog market, the Central Government once again increased nationwide pork reserves in several regions in accordance with the "Contingency Plan on Preventing Excessive Drop in Hog Price" during the second quarter of 2010. The breeding market regained confidence, ensuring future hog supply and stability in overall development of the industry.

After the Central Government had implemented a series of regulations including the "Administrative Provision for Live Pig Slaughtering" and the "Food Safety Law" in order to raise the standards of the overall meat product industry and to promote the long-term development of the hog slaughtering industry, it subsequently put into place the "Guideline For National Hog Slaughtering Industry Development (2010-2015)" in late 2009, which aims to eliminate outdated hog slaughtering capacity across the nation on a large scale in the coming five years, and to accelerate industry consolidation. In addition, through expanding the scale of industry consolidation, the meat product market in China will increase its sales proportion of chilled and small packaged pork products in the future. The increasing concerns from the Government and consumers over food safety provide the Group with favourable policies and business environment, as well as numerous business opportunities arising from industry consolidation, helping the Group to strive for higher sales and profitability of upstream chilled pork products and downstream low temperature meat products ("LTMP") in the future.

BUSINESS REVIEW

Benefiting from the increasing demand from Chinese consumers for high quality pork products and Yurun's advanced production capacity and market strategy, the Group was able to record a significant growth in business during the Review Period. Regarding the upstream slaughtering segment, the slaughtering volume recorded a significant increase of 59.6% to approximately 7.01 million heads, as compared to the same period last year. The downstream meat processing segment also achieved steady growth, enhancing the Group's continuous business development.

Sales and Distribution

The sales of branded chilled pork and LTMP, which have relatively high added value and gross margins, continued to play an important role in the growth of the Group's overall turnover and profit during the Review Period. In the first half of 2010, turnover attributable to sales of chilled pork reached HK$5.930 billion, representing a significant increase of 51.1% over the same period last year, accounting for 63.2% of the total turnover prior to inter-segment eliminations (1H2009: 61.2%). Turnover attributable to sales of LTMP was HK$1.747 billion, representing an increase of 13.7% over the same period last year, accounting for 18.6% of the total turnover prior to inter-segment eliminations (1H2009: 23.9%).

Production Facilities and Production Capacity

The Group continued to increase production capacity through selective acquisitions, enhancement of current production facilities and construction of new plants, to enlarge its market share and to satisfy the growing demand for its products, as well as to fully capture opportunities brought by the market consolidation of the slaughtering industry. The Group intends to further increase its LTMP production capacity in Nanjing. As at the date of this report, no detailed plans and schedules of such investment have been confirmed.

As at 30 June 2010, the upstream slaughtering capacity of the Group was 28.55 million heads per year, representing an increase of 3.00 million heads as compared to 25.55 million heads at the end of 2009. The Group's annual capacity of the downstream meat processing was 283 thousand tons, an increase of 5 thousand tons as compared to that at the end of 2009.

Product Quality and R&D

The Group has always remained adamant on the highest product quality. Strict internal quality control procedures of international standards have been applied to processes ranging from procurement, production, sales to logistics. Yurun Food has successfully developed a positive corporate image of quality food in the minds of consumers that allows the Group to maintain strong competitive advantages in the market, enlarge its market share and further strengthen its leading position in the industry.

In addition, the Group continued to expand its R&D team and strengthen its research efforts, focusing on mid-to-high-end products and new competitive products, as well as to lead the trends of meat product consumption in order to gain competitive advantages. Driven by the increasing demand for high quality meat products, the Group's overall sales volume of upstream and downstream businesses increased significantly to approximately 650 thousand tons during the Review Period, an increase of approximately 211 thousand tons as compared to the same period last year.

FINANCIAL REVIEW

The Group recorded a turnover of HK$8.693 billion in the first half of 2010, representing a significant growth of 49.0% as compared to HK$5.834 billion in the same period last year. During the Review Period, net profit showed robust growth, increasing by 55.7% as compared to the corresponding period last year, reaching HK$1.309 billion (1H2009: HK$0.841 billion). Diluted earnings per share was HK$0.743, representing an increase of 36.3% as compared to HK$0.545 in the same period last year.

TURNOVER

Chilled and Frozen Pork

Benefiting from the ample supply of hogs and excellent strategic planning, the Group's upstream sales volume during the Review Period increased significantly by 55.7% as compared to the same period last year. In the first half of 2010, the total sales generated from the upstream business (before inter-segment eliminations) increased by 57.0% to HK$7.520 billion as compared to the same period last year. This growth was mainly attributable to superior capacity and a well-established brand recognition, as well as the robust consumption demand in China during the Review Period.

Sales of chilled pork accounted for 78.9% of the total turnover of the upstream business (1H2009: 82.0%), reaching HK$5.930 billion, an increase of 51.1% as compared to the same period last year. Sales of frozen pork accounted for 21.1% of the total turnover of the upstream business (1H2009: 18.0%), reaching HK$1.590 billion, an increase of 84.2% as compared to the same period last year.

Processed Meat Products

During the Review Period, sales of processed meat products reached HK$1.863 billion (1H2009: HK$1.626 billion), increased by 14.5% from the same period last year. The growth was benefited from the strong brand recognition of "Yurun" and the favourable trend of China's sustaining economic recovery, as well as the Group's continuous improvement in its product mix and launch of new products with high added value.

During the Review Period, turnover of LTMP reached HK$1.747 billion, representing an increase of 13.7% as compared to HK$1.536 billion recorded for the corresponding period last year. LTMP accounted for approximately 93.8% (1H2009: 94.5%) of the total turnover of the processed meat segment, and continued to be the key revenue driver of the processed meat business. Turnover attributable to high temperature meat products ("HTMP") was HK$116 million (1H2009: HK$90 million), accounting for approximately 6.2% (1H2009: 5.5%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

The Group's overall gross profit increased by 37.8% from HK$0.976 billion in the first half of 2009 to HK$1.345 billion in the first half of 2010. Due to the rapid increase of the upstream business, which accounted for a higher percentage of the total turnover, gross profit margin of the Group decreased slightly by 1.2 percentage points from 16.7% to 15.5%.

With respect to the upstream business, the gross profit margin of chilled and frozen pork was 11.7% and 6.6% respectively (1H2009: 11.9% and 6.5% respectively). Overall gross profit margin for the upstream segment was 10.6%, a slight decrease of 0.3 percentage points as compared to 10.9% in the corresponding period last year.

As for the downstream products, the gross profit margin for LTMP was 29.9%, representing an increase of 1.5 percentage points as compared to 28.4% in the same period last year. Gross profit margin for HTMP was 21.0%, representing an increase of 0.5 percentage points as compared to the corresponding period last year. Overall gross profit margin for the downstream segment was 29.4%, an increase of 1.4 percentage points as compared to 28.0% in the same period last year. This was mainly attributable to decreasing hog purchasing cost, the Group's efficient and effective inventory management, strong brand recognition and diversified product mix. These allowed the Group to increase its overall gross profit margin through optimizing sales of products with higher margins and added value, while lowering costs.

Other Operating Income

Other operating income of the Group mainly included government subsidies and negative goodwill. During the Review Period, other operating income of the Group was HK$634 million, a significant increase from HK$371 million in the corresponding period last year. This was mainly attributable to the increasing Government subsidies to HK$461 million, rewarding the Group for aiding the development of the agricultural industry, representing a substantial increase from HK$230 million in the same period last year. Negative goodwill from acquisitions for the period was HK$133 million.

Operating Expenses

Operating expenses of the Group included distribution expenses, and administrative and other operating expenses. During the Review Period, the operating expenses of the Group were HK$527 million, representing an increase of 32.6% as compared to HK$398 million in the same period last year. Operating expenses represented 6.1% of the Group's turnover, a decrease of 0.7 percentage points as compared to 6.8% in the same period last year, which demonstrated the Group's ability to control cost effectively while expanding its business rapidly.

Operating Profit

In the first half of 2010, the Group's operating profit was HK$1.451 billion, increased by 52.8% from HK$0.950 billion in the same period last year.

Net Financing Expenses

The Group's net financing expenses for the first half of 2010 was HK$53.30 million while it was HK$24.80 million in the same period last year.

Income Tax

The total income tax for the six months ended 30 June 2010 was HK$86 million, representing an increase as compared to HK$82 million in the same period last year. The effective tax rate was 6.1%, a decrease of 2.8 percentage points as compared to 8.9% in the same period last year.

Net Profit

Taken together, the net profit of the Group increased by 55.7% from HK$0.841 billion in the first half of 2009 to HK$1.309 billion in the first half of 2010. Net profit margin for the Review Period was 15.1%, representing an increase of 0.7 percentage points from 14.4% in the same period last year. All in all, the Group realised remarkable growth in various aspects, which again demonstrated the competitive advantages of the Group in strategic planning and business operations.

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities during the Review Period, and the net proceeds of approximately HK$2.114 billion raised from the issue of 90,000,000 new shares at a price of HK$23.88 per share in April 2010. The Group's net cash inflow from operating activities in the first half of 2010 amounted to HK$0.897 billion. Cash balance, time deposits and pledged deposits of bank loan as at 30 June 2010 amounted to HK$5.507 billion, representing an increase of HK$2.206 billion as compared to HK$3.301 billion as at 31 December 2009.

As at 30 June 2010, the Group had HK$3.701 billion outstanding bank loans, representing an increase of HK$0.569 billion as compared to HK$3.132 billion as at 31 December 2009.

Whilst funds were used for strategic acquisitions and investments in production facilities during the Review Period, the Group continued to maintain 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 2010, the total assets and total liabilities of the Group were HK$16.919 billion and HK$5.243 billion respectively, representing an increase of HK$3.984 billion and HK$0.709 billion as compared to that as at 31 December 2009, respectively.

As at 30 June 2010, the equity attributable to equity holders of the Company was HK$11.637 billion, representing an increase of HK$3.267 billion as compared to HK$8.370 billion as at 31 December 2009.

As at 30 June 2010, the gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 24.9%, a decrease of 3.4 percentage points from 28.3% as at 31 December 2009.

Charges on Assets

As at 30 June 2010, certain properties and lease prepayments of the Group with a carrying amount of HK$42.56 million and HK$31.38 million respectively (31 December 2009: HK$44.36 million and HK$31.33 million respectively) were pledged against certain bank loans with a total amount of HK$78.55 million (31 December 2009: HK$77.58 million). Bank loans and bills payable of the Group amounted to HK$1.074 billion (31 December 2009: HK$1.243 billion) were secured by pledged deposits of HK$0.580 billion (31 December 2009: HK$0.758 billion).

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Acquisition of 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. The Group intends to further invest in its LTMP factory in Nanjing. The details regarding the investment in Nanjing are yet to be confirmed. Save as disclosed above, as at the date of the report, there is no significant investment or plans to acquire capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 30 June 2010.

Exposure to Fluctuation in Exchange Rates and Related Hedges

The business of the Group was mainly conducted in Renminbi except that the purchases of some equipment and raw materials and payment of certain professional fees were in United States dollars ("USD"), Euros and Hong Kong dollars. The functional currency of the PRC subsidiaries is Renminbi which is not freely convertible. The Group has entered into certain USD and Euros foreign exchange forward contracts. The Group will monitor its exposure by taking into account of the factors including but not limited to the exchange rate movement of the relevant foreign currencies and the cashflow requirements of the Group to keep the risk at an acceptable level.

HUMAN RESOURCES

As at 30 June 2010, the Group had 18,689 (31 December 2009: 16,458) employees in the PRC (including Hong Kong). During the Review Period, total staff cost was HK$0.271 billion, accounting for 3.1% 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-based bonuses and a share option scheme to encourage and reward the employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

INTERIM DIVIDEND

The board of directors of the Company (the "Board") has resolved to declare an interim dividend of HK$0.20 per share for the six months ended 30 June 2010 (for the six months ended 30 June 2009: HK$0.15) which shall be payable on or about Monday, 20 September 2010 to shareholders whose names appear on the Register of Members of the Company ("Register of Members") on Thursday, 9 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 8 September 2010 to Thursday, 9 September 2010, 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 registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 7 September 2010.

CHANGES OF BOARD OF DIRECTORS DURING THE SIX MONTHS ENDED 30 JUNE 2010

The following changes of the Board took effect from 8 January 2010:

(i) Yu Zhangli was appointed as an executive director;

(ii) Wang Kaitian and Li Chenghua were appointed as non-executive directors;

(iii) Qiao Jun was appointed as an independent non-executive director and chairman of the Remuneration Committee;

(iv) Chen Jianguo was appointed as an independent non-executive director, member of the Audit Committee and chairman of the Nomination Committee;

(v) Sun Yanjun resigned from the position as a non-executive director; and

(vi) Kang Woon resigned from the position as an independent non-executive director, member of the Audit Committee, and chairman of the Remuneration Committee and the Nomination Committee.

Following the passing away of Zheng Xueyi on 15 October 2009 as announced by the Company on 19 October 2009, the Company had only two independent non-executive directors. Subsequent to the above changes, the Company has, with effect from 8 January 2010, three independent non-executive directors and therefore is in compliance with Rule 3.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Following the special general meeting of the Company held on 3 February 2010, the maximum number of directors of the Company has been revised from fifteen to eleven and the bye-laws of the Company has been amended to such effect.

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

As at 30 June 2010, the number of issued ordinary shares of the Company was 1,763,284,650. 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 ("Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the 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	Company	Interest of a controlled corporation	Personal	528,658,900[1]	—	528,658,900	29.98%
	Willie Holdings Limited	Beneficial owner	Corporate	100[1]	—	100	100%
Zhu Yiliang	Company	Beneficial owner	Personal	—	2,500,000	2,500,000	0.14%
Feng Kuande	Company	Beneficial owner	Personal	—	2,500,000	2,500,000	0.14%
Ge Yuqi	Company	Beneficial owner	Personal	—	2,500,000	2,500,000	0.14%
Yu Zhangli[3]	Company	Beneficial owner	Personal	—	150,000	150,000	0.01%

Notes:

(1) These 528,658,900 shares were beneficially owned by Willie Holdings Limited ("Willie Holdings"). Willie Holdings is owned as to 93.41% by Zhu Yicai ("Mr. Zhu") and 6.59% by Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. Mr. Zhu is deemed to be interested in these shares by virtue of Part XV of the SFO.

(2) The interest 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) Yu Zhangli was appointed as a director of the Company with effect from 8 January 2010.

(4) 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 2010, none of the directors and/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 Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 30 June 2010, so far as is known to the directors of the Company, the interests or short positions of every person (other than a director or 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	Long position/Short position	Number of shares	Approximate percentage to the Company's issued shares
Willie Holdings	Long position	528,658,900[(1)]	29.98%
Ms. Wu	Long position	528,658,900[(1)]	29.98%
JPMorgan Chase & Co.[(2)]	Long position	177,356,025	10.06%
	Short position	9,502,000	0.54%

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 these shares by virtue of Part XV of the SFO.

(2) So far as is known to the directors of the Company, these shares were held by JPMorgan Chase & Co. and corporations controlled by it in the respective capacities as detailed below:

	Number of shares	
Capacity	**Long position**	**Short position**
Beneficial owner	7,344,000	9,502,000
Investment manager	107,471,000	—
Approved lending agent/Custodian (lending pool)	62,541,025	—

Save as disclosed above, as at 30 June 2010, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares and underlying shares of the Company.

SHARE OPTION SCHEME

The Company adopted a share option scheme ("Share Option Scheme") and the share options outstanding under the Share Option Scheme as at 30 June 2010 were as follows:

Name or category of participant	Number of share options: As at 1 January 2010[1]	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2010	Option period[(2) & (3)]
Directors						
Zhu Yiliang	2,500,000	—	—	—	**2,500,000**	10.11.2006 – 09.11.2016
Feng Kuande	2,500,000	—	—	—	**2,500,000**	10.11.2006 – 09.11.2016
Ge Yuqi	2,500,000	—	—	—	**2,500,000**	10.11.2006 – 09.11.2016
Yu Zhangli[4]	150,000	—	—	—	**150,000**	10.11.2006 – 09.11.2016
Subtotal	7,650,000	—	—	—	**7,650,000**[5]	
Employees[6]						
In aggregate	14,320,000	—	(65,000)	—	**14,255,000**	10.11.2006 – 09.11.2016
Subtotal	14,320,000	—	(65,000)	—	**14,255,000**	
Total	21,970,000	—	(65,000)	—	**21,905,000**	

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 vesting 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, unless otherwise determined or relaxed by the Board and the remuneration committee of the Company, 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) Yu Zhangli was appointed as a director of the Company on 8 January 2010.

(5) The share options represent personal interests held by the relevant directors as beneficial owners.

(6) The share options under "Employees" represent share options granted to employees, ex-employees and ex-directors, but excluding directors as at 30 June 2010.

(7) The closing price of the shares of the Company immediately before the date of grant (i.e. 9 November 2006) was HK$7.580.

(8) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$24.904.

(9) 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 executive of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

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 contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in the securities of the Company by the directors. The Company, having made specific enquiry with all directors, confirms that the directors have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2010.

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 2010, except for the issue of 65,000 shares of the Company under the Share Option Scheme and the placing of 90,000,000 new ordinary shares in the Company to investors, details of which are set out in the Company's announcement dated 22 April 2010.

AUDIT COMMITTEE

The Audit Committee of the Company 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 2010.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 24 August 2010

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 15 to 40 which comprises the consolidated balance sheet of China Yurun Food Group Limited as of 30 June 2010 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 2010 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

24 August 2010

Consolidated Income Statement

For the six months ended 30 June 2010 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2010 $'000	2009 $'000
Turnover	4	**8,693,312**	5,834,036
Cost of sales		**(7,348,164)**	(4,857,819)
Gross profit		**1,345,148**	976,217
Other operating income	7	**633,506**	370,997
Distribution expenses		**(300,170)**	(241,721)
Administrative and other operating expenses		**(227,131)**	(155,932)
Results from operating activities		**1,451,353**	949,561
Finance income		**20,318**	26,176
Finance expenses		**(73,617)**	(50,977)
Net financing expenses	8(a)	**(53,299)**	(24,801)
Share of loss of an associate (net of income tax)		**(121)**	(24)
Profit before income tax	8	**1,397,933**	924,736
Income tax expense	9	**(85,888)**	(81,969)
Profit for the period		**1,312,045**	842,767
Attributable to:			
Equity holders of the Company		**1,309,437**	841,250
Non-controlling interests		**2,608**	1,517
Profit for the period		**1,312,045**	842,767
Earnings per share			
Basic	11(a)	**$ 0.762**	$ 0.549
Diluted	11(b)	**$ 0.743**	$ 0.545

The notes on pages 21 to 40 form part of this interim financial report. Details of dividends payable to equity holders of the Company are set out in note 17.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2010	2009
		$'000	$'000
Profit for the period		**1,312,045**	842,767
Other comprehensive income for the period			
(after reclassification adjustments)	10(a)		
Foreign currency translation differences for foreign operations		**105,943**	(263)
Available-for-sale financial assets: net movement in fair value reserve	10(b)	**(55)**	1,987
		105,888	1,724
Total comprehensive income for the period		**1,417,933**	844,491
Attributable to:			
Equity holders of the Company		**1,414,893**	842,979
Non-controlling interests		**3,040**	1,512
Total comprehensive income for the period		**1,417,933**	844,491

The notes on pages 21 to 40 form part of this interim financial report.

Consolidated Balance Sheet

As at 30 June 2010 - unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2010 $'000	31 December 2009 $'000
Non-current assets			
Property, plant and equipment	12	**5,840,381**	5,065,383
Investment properties		**213,231**	214,093
Lease prepayments		**1,876,450**	1,407,155
Goodwill		**87,458**	86,374
Investment in an associate		**2,719**	2,805
Non-current prepayments		**846,802**	936,738
Deferred tax assets		**20,155**	21,025
		8,887,196	7,733,573
Current assets			
Inventories		**1,291,677**	936,129
Other investments	13	**1,150**	6,870
Current portion of lease prepayments		**40,922**	30,722
Trade and other receivables	14	**1,190,437**	926,567
Income tax recoverable		**958**	378
Pledged deposits		**606,321**	758,759
Time deposits		**31,624**	76,817
Cash and cash equivalents	15	**4,868,593**	2,465,128
		8,031,682	5,201,370
Current liabilities			
Bank loans		**3,676,362**	3,108,093
Finance lease liabilities		**490**	474
Trade and other payables	16	**1,205,766**	1,084,750
Income tax payable		**18,881**	19,315
		4,901,499	4,212,632
Net current assets		**3,130,183**	988,738
Total assets less current liabilities		**12,017,379**	8,722,311

Consolidated Balance Sheet

As at 30 June 2010 - unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2010 $'000	31 December 2009 $'000
Non-current liabilities			
Bank loans		**24,667**	24,361
Finance lease liabilities		**166,227**	164,414
Deferred tax liabilities		**150,887**	133,357
		341,781	322,132
Net assets		**11,675,598**	8,400,179
Equity			
Share capital	17	**176,329**	167,322
Reserves		**11,460,687**	8,202,380
Total equity attributable to equity holders of the Company		**11,637,016**	8,369,702
Non-controlling interests		**38,582**	30,477
Total equity		**11,675,598**	8,400,179

Approved and authorised for issue by the board of directors on 24 August 2010

Zhu Yicai
Director

Zhu Yiliang
Director

The notes on pages 21 to 40 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010 – 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	Non-controlling interests $'000	Total equity $'000
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
Total comprehensive income for the period		—	—	—	—	—	1,987	(258)	841,250	842,979	1,512	844,491
Shares issued under share option scheme	17(c)	479	42,366	—	—	—	—	—	(7,060)	35,785	—	35,785
Share-based payments		—	—	—	—	—	—	—	6,170	6,170	—	6,170
Dividends approved during the period	17(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
At 1 January 2010		**167,322**	**4,194,786**	**3,887**	**(112,202)**	**426,040**	**55**	**491,427**	**3,198,387**	**8,369,702**	**30,477**	**8,400,179**
Total comprehensive income for the period		**—**	**—**	**—**	**—**	**—**	**(55)**	**105,511**	**1,309,437**	**1,414,893**	**3,040**	**1,417,933**
Issuance of new shares	17(d)	**9,000**	**2,140,200**	**—**	**—**	**—**	**—**	**—**	**—**	**2,149,200**	**—**	**2,149,200**
Share issue expense		**—**	**(34,840)**	**—**	**—**	**—**	**—**	**—**	**—**	**(34,840)**	**—**	**(34,840)**
Shares issued under share option scheme	17(c)	**7**	**572**	**—**	**—**	**—**	**—**	**—**	**(94)**	**485**	**—**	**485**
Capital contributions from non-controlling interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,495**	**6,495**
Share-based payments		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,069**	**2,069**	**—**	**2,069**
Dividends approved during the period	17(b)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(264,493)**	**(264,493)**	**(1,430)**	**(265,923)**
At 30 June 2010		**176,329**	**6,300,718**	**3,887**	**(112,202)**	**426,040**	**—**	**596,938**	**4,245,306**	**11,637,016**	**38,582**	**11,675,598**

The notes on pages 21 to 40 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2010 - unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2010 $'000	Six months ended 30 June 2009 $'000
Cash generated from operations		**967,211**	672,136
Tax paid		**(69,766)**	(28,182)
Net cash generated from operating activities		**897,445**	643,954
Net cash used in investing activities		**(995,718)**	(1,523,706)
Net cash generated from financing activities		**2,462,479**	619,996
Net increase/(decrease) in cash and cash equivalents		**2,364,206**	(259,756)
Cash and cash equivalents at 1 January	15	**2,465,128**	1,209,092
Effect of exchange rate fluctuation on cash held		**39,259**	(111)
Cash and cash equivalents at 30 June	15	**4,868,593**	949,225

The notes on pages 21 to 40 form part of this interim financial report.

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 2010 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 ("Listing Rules"), including compliance with International Accounting Standard ("IAS") 34, "Interim financial reporting" promulgated by the International Accounting Standards Board ("IASB"). It was authorised for issue on 24 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 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 2009 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 ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 14.

The financial information relating to the financial year ended 31 December 2009 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 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2010.

3 CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in this interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

(a) Accounting for business combinations

From 1 January 2010, the Group has applied IFRS 3 (revised 2008), "Business combinations" in accounting for business combinations. The change in accounting policy has been applied prospectively.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(b) Accounting for the acquisitions of non-controlling interests

From 1 January 2010, the Group has applied IAS 27, "Consolidated and separate financial statements" in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively; there was no impact on earnings per share in the current period.

From 1 January 2010, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised. Previously, goodwill arising on the acquisition of non-controlling interests in a subsidiary has been recognised, and represented the excess of the cost of additional investment over the carrying amount of the interest in the net assets acquired at the date of transaction.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Distributions of non-cash assets to owners

From 1 January 2010, the Group has applied IFRIC 17, "Distributions of non-cash assets to owners" in accounting for distributions of non-cash assets to owners. This new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets to owners at the fair value of the assets to be distributed. The carrying amount of the liability is remeasured at each reporting period and at the settlement date with any changes recognised in equity as adjustments to the amount of the distribution.

On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

(d) Accounting for operating segments

As a result of the amendment to IFRS 8, "Operating segments", arising from the "Improvements to IFRSs (2009)" omnibus standard, the measure of total assets for each reportable segment is only required to be presented if it is regularly provided to the Group's chief operating decision maker. Segment assets of the Group are not reported to the Group's chief operating decision maker regularly. As a result, reportable segment assets have not been presented in this interim financial report.

4 TURNOVER AND SEGMENT INFORMATION

(a) Segment results

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

	For the six months ended 30 June							
	Chilled and frozen meat		Processed meat products		Inter-segment elimination		Total	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Revenue from external customers	**6,830,625**	4,207,680	**1,862,687**	1,626,356	**—**	—	**8,693,312**	5,834,036
Inter-segment revenue	**689,101**	580,866	**—**	—	**(689,101)**	(580,866)	**—**	—
Reportable segment revenue	**7,519,726**	4,788,546	**1,862,687**	1,626,356	**(689,101)**	(580,866)	**8,693,312**	5,834,036
Reportable segment profit	**1,146,706**	700,912	**319,949**	266,492	**(1,188)**	(227)	**1,465,467**	967,177
Depreciation and amortisation for the period	**103,324**	47,768	**33,454**	33,098			**136,778**	80,866
Unallocated depreciation and amortisation for the period							**291**	117
							137,069	80,983

(b) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2010 $'000	2009 $'000
Profit		
Reportable segment profit	**1,466,655**	967,404
Elimination of inter-segment profits	**(1,188)**	(227)
Reportable segment profit derived from Group's external customers	**1,465,467**	967,177
Share of loss of an associate	**(121)**	(24)
Net financing expenses	**(53,299)**	(24,801)
Income tax expense	**(85,888)**	(81,969)
Unallocated head office and corporate expenses	**(14,114)**	(17,616)
Consolidated profit for the period	**1,312,045**	842,767

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.

6 BUSINESS COMBINATIONS

Shandong Lushen Food Company Limited* ("Shandong Lushen")

On 24 March 2010, 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 Shandong Lushen from Shandong Province Juye Local County Government (山東省巨野縣人民政府), at a cash consideration of $9,136,000. Details of Shandong Lushen are as follows:

Name of company	**Results contributed by the acquired business from the date of acquisition to 30 June 2010** $'000	**Principal activities**
Shandong Lushen 山東魯神食品有限公司	39,732	Slaughtering, production and sales of chilled and frozen meat

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

6 BUSINESS COMBINATIONS *(Continued)*

Shandong Lushen Food Company Limited* ("Shandong Lushen") *(Continued)*

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)	46,570	36,204	10,366
Other non-current assets	2,270	2,270	—
Current assets	28	28	—
Net identifiable assets acquired	48,868	38,502	10,366
Less: Consideration	(9,136)		
Negative goodwill arising on acquisition (note 7)	39,732		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2010. Shandong Lushen had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill.

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

6 BUSINESS COMBINATIONS *(Continued)*

Henan Fuxin Muslim Meat Industry Company Limited* ("Henan Fuxin")

On 14 May 2010, the Group entered into a share transfer agreement with an individual through the Henan Province Nanle Local County Government（河南省南樂縣人民政府）to acquire the entire equity interest of Henan Fuxin at a cash consideration of $11,000. Details of Henan Fuxin are as follows:

Name of company	Results contributed by the acquired business from the date of acquisition to 30 June 2010 $'000	Principal activities
Henan Fuxin 河南福鑫清真肉業有限公司	93,557	Slaughtering, production and sales of chilled and frozen meat

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)	88,296	46,288	42,008
Other non-current assets	5,051	5,051	—
Current assets	221	221	—
Net identifiable assets acquired	93,568	51,560	42,008
Less: Consideration	(11)		
Negative goodwill arising on acquisition (note 7)	93,557		

The consolidated revenue and consolidated profit for the period would not be significantly different if the acquisition had occurred on 1 January 2010. Henan Fuxin had been loss making. In order to support regional economic development, the government rendered a bargain to the Group on the acquisition which resulted in a negative goodwill.

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

7 OTHER OPERATING INCOME

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Government subsidies	**460,851**	229,543
Recognition of negative goodwill arising on business combinations (note 6)	**133,289**	119,270
Rental income	**15,884**	11,070
Sales of scrap	**1,993**	1,609
Others	**21,489**	9,505
	633,506	370,997

During the six months ended 30 June 2010, the Group was entitled to unconditional government subsidies of $460,851,000 (six months ended 30 June 2009: $229,543,000). These government subsidies were recognised as other operating income when they became receivable.

8 PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2010	2009
	$'000	$'000
(a) Net financing expenses:		
Interest on bank and other loans wholly repayable within five years	**73,151**	45,399
Interest on lease obligation	**3,055**	3,040
Less: Interest expense capitalised into properties under development	**(4,584)**	(4,838)
	71,622	43,601
Bank charges	**1,995**	2,606
Net foreign exchange gain	**(4,819)**	(2,935)
Interest income on held-to-maturity investments	**—**	(2,588)
Interest income from bank deposits	**(12,967)**	(20,653)
Net gain on sales of available-for-sale financial assets	**(115)**	—
Impairment loss on available-for-sale financial assets	**—**	1,932
Change of fair value in financial derivatives	**(2,417)**	2,838
	53,299	24,801
(b) Other items:		
(Reversal of impairment losses)/impairment losses on trade and other receivables	**(4,679)**	1,765
Amortisation of lease prepayments	**17,262**	11,898
Depreciation	**119,807**	69,085
Operating lease charges in respect of land use rights and premises		
- minimum lease payments	**8,494**	7,473
- contingent rent	**3,410**	2,659
Loss on disposal of property, plant and equipment	**1,467**	1,852

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Current tax expense	**68,541**	35,726
Deferred tax expense	**17,347**	46,243
	85,888	81,969

(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 2010 and 2009.

(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 corporate income tax at a rate of 25% during the six months ended 30 June 2010 (six months ended 30 June 2009: 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 corporate income tax for two years starting from its first profit-making year, followed by a 50% reduction in the PRC corporate 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 corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the six months ended 30 June 2010 and 2009.

(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 corporate income tax for five years starting from its first profit-making year, followed by a reduced PRC corporate income tax rate of 15% for the remaining years through 2010.

9 INCOME TAX EXPENSE *(Continued)*

(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.

As at 30 June 2010, temporary differences relating to the undistributed profits of subsidiaries amounted to $3,898,003,000 (31 December 2009: $2,647,443,000). Deferred tax liabilities of $48,528,000 (31 December 2009: $Nil) in respect of the undistributed profits of $970,560,000 (31 December 2009: $Nil) were not recognised as at 30 June 2010 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not 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 as a PRC resident enterprise and subject to PRC corporate income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC corporate income tax at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

(f) The Group's consolidated effective tax rate for the six months ended 30 June 2010 was 6.1% (six months ended 30 June 2009: 8.9%).

10 OTHER COMPREHENSIVE INCOME

(a) The components of other comprehensive income do not have any significant tax effect for the six months ended 30 June 2010 and 2009.

(b) Available-for-sale financial assets

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Changes in fair value recognised during the period	**60**	55
Reclassification adjustments for amounts transferred to profit or loss:		
- gains on disposal	**(115)**	—
- impairment losses	**—**	1,932
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(55)**	1,987

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 $1,309,437,000 (six months ended 30 June 2009: $841,250,000) and the weighted average number of ordinary shares of 1,718,255,000 (six months ended 30 June 2009: 1,531,955,000).

(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 $1,309,437,000 (six months ended 30 June 2009: $841,250,000) and the diluted weighted average number of ordinary shares of 1,763,323,000 (six months ended 30 June 2009: 1,542,164,000) after adjusting the effect of deemed issue of shares under the Company's share option scheme.

12 PROPERTY, PLANT AND EQUIPMENT

The additions and disposals of items of property, plant and equipment during the six months ended 30 June 2010 are as follows:

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Additions through business combinations (note 6)	**134,866**	229,602
Cost of other additions	**690,840**	247,775
Disposals (net carrying amount)	**1,837**	8,193

13 OTHER INVESTMENTS

	30 June	31 December
	2010	2009
	$'000	$'000
Available-for-sale financial assets, unlisted	**1,150**	6,870

14 TRADE AND OTHER RECEIVABLES

An ageing analysis of trade receivables based on invoice date and a breakdown of trade and other receivables as at balance sheet date are analysed as follows:

	30 June 2010 $'000	31 December 2009 $'000
Within 30 days	**499,369**	296,053
31 days to 90 days	**187,447**	130,388
91 days to 180 days	**40,118**	148,144
Over 180 days	**11,998**	16,162
	738,932	590,747
Less: provision for impairment of trade receivables	**(10,547)**	(15,065)
Total trade debtors, net of impairment loss	**728,385**	575,682
Bills receivable	**8,976**	—
Value-added tax ("VAT") recoverable	**363,566**	275,188
Deposits, prepayments and other receivables	**41,849**	32,462
Others	**47,661**	43,235
	1,190,437	926,567

The Group normally allows a credit period ranging from 30 to 90 days to its customers. As at 30 June 2010, amounts due from related companies of $2,698,000 (31 December 2009: $4,000) are included in trade debtors (note 19(b)).

15 CASH AND CASH EQUIVALENTS

	30 June 2010 $'000	31 December 2009 $'000
Cash and bank balances	**4,868,593**	2,465,128

16 TRADE AND OTHER PAYABLES

An ageing analysis of trade payables based on invoice date and a breakdown of trade and other payables as at balance sheet date are analysed as follows:

	30 June 2010 $'000	31 December 2009 $'000
Within 30 days	**398,013**	343,132
31 days to 90 days	**48,271**	61,434
91 days to 180 days	**22,763**	13,402
Over 180 days	**10,710**	21,780
Total trade creditors	**479,757**	439,748
Bills payable	**114,995**	—
Receipts in advance	**116,080**	110,616
Deposit from customers	**47,503**	45,223
Salary and welfare payables	**78,624**	78,402
VAT payable	**4,109**	1,013
Amounts due to related companies (note 19(c))	**6,256**	4,998
Derivative financial instruments	**1,396**	3,779
Other payables and accruals	**357,046**	400,971
	1,205,766	1,084,750

As at 30 June 2010, amounts due to related companies of $2,622,000 (31 December 2009: $5,925,000) are included in trade creditors (note 19(c)).

17 CAPITAL, RESERVES AND DIVIDENDS

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

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Interim dividend proposed after the balance sheet date of $0.200 per share (six months ended 30 June 2009: $0.150 per share)	**352,657**	230,379

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	
	2010	2009
	$'000	$'000
Final dividend in respect of the financial year ended 31 December 2009, approved and paid during the following interim period, of $0.150 per share (year ended 31 December 2008: $0.080 per share)	**264,493**	122,780

(c) Shares issued under share option scheme

During the six months ended 30 June 2010, options were exercised to subscribe for 65,000 (six months ended 30 June 2009: 4,797,000) ordinary shares in the Company at an aggregate consideration of $485,000 (six months ended 30 June 2009: $35,785,000) of which $7,000 (six months ended 30 June 2009: $479,000) was credited to share capital and the remaining balance of $478,000 (six months ended 30 June 2009: $35,306,000) was credited to the share premium account. The fair value of the share options recognised in the retained earnings amounting to $94,000 (six months ended 30 June 2009: $7,060,000) has been transferred to the share premium account.

(d) New shares placing

On 22 April 2010, 90,000,000 new ordinary shares of the Company at a par value of $0.10 each were issued at a price of $23.88 per share.

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

	30 June 2010 $'000	31 December 2009 $'000
Contracted for	**2,020,269**	152,422
Authorised but not contracted for	**2,150,414**	236,020
	4,170,683	388,442

19 RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2010 and 2009, 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") (notes (i) & (iv))
安慶福潤禽業食品有限公司

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

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

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

Danjiangkou Furun Poultry Product Co., Ltd. ("Danjiangkou Furun") (notes (i) & (iv))
丹江口福潤禽業食品有限公司

Daye Furun Poultry Product Co., Ltd ("Daye Furun") (notes (i) & (iv))
大冶福潤禽業食品有限公司

Fengqiu Furun Poultry Product Co., Ltd (notes (i) & (iv))
封丘福潤禽業食品有限公司

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

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

19 RELATED PARTY TRANSACTIONS *(Continued)*

Name of party

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

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

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

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

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

Linyi Furun Poultry Product Co., Ltd ("Linyi Furun") (notes (i) & (iv))
臨邑福潤禽業食品有限公司

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

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

Shouxian Furun Poultry Product Co., Ltd. ("Shouxian Furun") (notes (i) & (iv))
壽縣福潤禽業食品有限公司

Shulan Furun Poultry Product Co., Ltd. ("Shulan Furun") (notes (i) & (iv))
舒蘭福潤禽業食品有限公司

Suixi Furun Poultry Product Co., Ltd. ("Suixi Furun") (notes (i) & (iv))
濉溪福潤禽業食品有限公司

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

Xuzhou Furun Poultry Product Co., Ltd. ("Xuzhou Furun") (notes (i) & (iv))
徐州福潤禽業食品有限公司

Itoham Foods Beijing Co. Ltd. ("Itoham") (notes (ii) & (iv))
伊藤食品（北京）有限公司

19 RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) 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) Zhu Yicai was the beneficial owner of Anhui Xuerun. He disposed of the equity interest in Anhui Xuerun during the six months ended 30 June 2009.

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

(a) Significant related party transactions

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

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Sales of meat and by-products		
Anhui Xuerun	**—**	239
Sales of raw materials		
Anhui Xuerun	**—**	1,423
Itoham	**288**	424
Total	**288**	1,847
Purchases of raw materials		
Anqing Furun	**2,505**	6,869
Liaocheng Furun	**21,509**	11,575
Xuzhou Furun	**7,506**	—
Shouxian Furun	**2,401**	—
Danjiangkou Furun	**5,714**	—
Daye Furun	**4,290**	—
Linyi Furun	**16,725**	—
Shulan Furun	**478**	—
Suixi Furun	**6,939**	—
Total	**68,067**	18,444
Purchases of finished goods		
Anhui Xuerun	**—**	19,128
Itoham	**1,641**	1,672
Total	**1,641**	20,800

19 RELATED PARTY TRANSACTIONS *(Continued)*

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

(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 2010. The rental paid or payable to the related parties amounted to $3,485,000 for the six months ended 30 June 2010 (six months ended 30 June 2009: $3,174,000).

(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 a carrying value of $971,000.

(iv) During the six months ended 30 June 2010, certain related parties made available their properties at a carrying value of $36,516,000 as at 30 June 2010 to the Group (as at 31 December 2009: $34,775,000). No rental is paid or payable by any of the group companies.

(v) The Group shared an office premises with Willie Holdings during the six months ended 30 June 2010. The rental paid or payable to Willie Holdings and certain expenses borne by the Company amounted to $1,258,000 for the six months ended 30 June 2010 (six months ended 30 June 2009: $1,252,000).

(vi) During the six months ended 30 June 2010 and 2009, 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.

(b) Amounts due from related companies

	30 June 2010 $'000	31 December 2009 $'000
Trade		
Anqing Furun	**29**	—
Xuzhou Furun	**799**	—
Shouxian Furun	**107**	—
Linyi Furun	**1,763**	—
Itoham	**—**	4
	2,698	4

Amounts due from related companies are unsecured, interest free and are expected to be recovered within one year.

19 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due to related companies

	30 June 2010 $'000	31 December 2009 $'000
Trade		
Liaocheng Furun	**620**	1,716
Itoham	**665**	3,004
Daye Furun	**46**	—
Danjiangkou Furun	**95**	243
Linyi Furun	**81**	200
Shouxian Furun	**—**	428
Suixi Furun	**621**	—
Shulan Furun	**480**	—
Xuzhou Furun	**14**	334
	2,622	5,925
Non-trade		
Willie Holdings	**6,256**	4,998
Total	**8,878**	10,923

Amounts due to related companies 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	
	2010 $'000	2009 $'000
Salaries and other emoluments	**5,155**	3,479
Contribution to retirement benefit schemes	**126**	139
Share-based payment	**1,419**	4,763
	6,700	8,381