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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2011	2010	
	HK$ in million	*HK$ in million*	Growth
	(Unaudited)	*(Unaudited)*	rate
Turnover	**16,456**	8,693	89.3%
Core net profit#	**1,213**	710	70.8%
Profit attributable to equity holders	**1,609**	1,309	22.9%
Basic earnings per share *(HK$)*	**0.887**	0.762	16.4%

- Turnover and core net profit for the period recorded a significant increase of 89.3% and 70.8% respectively mainly due to significant increase in hog price as well as growth's in the Group's slaughtering volume.

- Profit attributable to equity holders and basic earnings per share rose by 22.9% and 16.4% respectively as compared to the same period last year.

Core net profit refers to profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains.

SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2011. The interim financial report for the six months ended 30 June 2011 (the "Review Period") 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, whose unmodified review report is included in the interim report to be sent to the shareholders. The results have also been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2011 – unaudited

		Six months ended 30 June	
	Note	**2011**	2010
		HK$'000	*HK$'000*
Turnover	*3*	**16,456,078**	8,693,312
Cost of sales		**(14,390,032)**	(7,348,164)
Gross profit		**2,066,046**	1,345,148
Other operating income	*4*	**387,441**	633,506
Distribution expenses		**(363,605)**	(300,170)
Administrative and other operating expenses		**(356,020)**	(227,131)
Results from operating activities		**1,733,862**	1,451,353
Finance income		**82,763**	20,318
Finance costs		**(95,142)**	(73,617)
Net finance costs	*5(a)*	**(12,379)**	(53,299)
Share of losses of associates (net of income tax)		**(274)**	(121)
Share of loss of a jointly controlled entity (net of income tax)		**(168)**	–
Profit before income tax	*5*	**1,721,041**	1,397,933
Income tax expense	*6*	**(106,024)**	(85,888)
Profit for the period		**1,615,017**	1,312,045

	Note	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Attributable to:			
Equity holders of the Company		**1,608,850**	1,309,437
Non-controlling interests		**6,167**	2,608
Profit for the period		**1,615,017**	1,312,045
Earnings per share			
Basic	*7(a)*	HK$ **0.887**	HK$ 0.762
Diluted	*7(b)*	HK$ **0.881**	HK$ 0.743

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2011 – unaudited

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period	**1,615,017**	1,312,045
Other comprehensive income for the period		
Foreign currency translation differences for foreign operations	**231,041**	105,943
Available-for-sale financial assets: net movement in fair value reserve recognised during the period	**–**	(55)
	231,041	105,888
Total comprehensive income for the period	**1,846,058**	1,417,933
Attributable to:		
Equity holders of the Company	**1,839,056**	1,414,893
Non-controlling interests	**7,002**	3,040
Total comprehensive income for the period	**1,846,058**	1,417,933

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2011 – UNAUDITED

	Note	**30 June 2011** *HK$'000*	31 December 2010 *HK$'000*
Non-current assets			
Property, plant and equipment		**9,761,602**	8,037,446
Investment properties		**209,825**	215,862
Lease prepayments		**2,785,704**	2,159,309
Goodwill		**91,565**	90,054
Interest in an associate		**5,274**	2,466
Interest in a jointly controlled entity		**23,428**	23,204
Non-current prepayments		**707,160**	952,867
Deferred tax assets		**20,751**	20,455
		13,605,309	11,501,663
Current assets			
Inventories		**1,252,488**	1,268,316
Other investments		**–**	1,184
Current portion of lease prepayments		**60,717**	47,281
Trade and other receivables	*8*	**1,470,263**	1,189,686
Income tax recoverable		**513**	1,233
Pledged deposits		**504,571**	227,655
Time deposits		**3,115**	151,280
Cash and cash equivalents		**7,426,548**	5,972,385
		10,718,215	8,859,020
Current liabilities			
Bank loans		**4,417,201**	3,151,495
Finance lease liabilities		**537**	516
Trade and other payables	*9*	**2,800,751**	1,817,121
Income tax payable		**13,880**	29,559
		7,232,369	4,998,691
Net current assets		**3,485,846**	3,860,329
Total assets less current liabilities		**17,091,155**	15,361,992

	Note	30 June 2011 HK$'000	31 December 2010 HK$'000
Non-current liabilities			
Bank loans		**724,758**	529,798
Finance lease liabilities		**173,495**	170,869
Deferred tax liabilities		**202,732**	178,827
		1,100,985	879,494
NET ASSETS		**15,990,170**	14,482,498
EQUITY			
Share capital		**181,442**	181,116
Reserves		**15,755,937**	14,255,593
Total equity attributable to equity holders of the Company		**15,937,379**	14,436,709
Non-controlling interests		**52,791**	45,789
TOTAL EQUITY		**15,990,170**	14,482,498

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2011 – unaudited

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Cash generated from operations	**2,282,314**	967,211
Tax paid	**(100,198)**	(69,766)
Net cash generated from operating activities	**2,182,116**	897,445
Net cash used in investing activities	**(1,622,233)**	(995,718)
Net cash generated from financing activities	**786,662**	2,462,479
Net increase in cash and cash equivalents	**1,346,545**	2,364,206
Cash and cash equivalents at 1 January	**5,972,385**	2,465,128
Effect of exchange rate fluctuation on cash held	**107,618**	39,259
Cash and cash equivalents at 30 June	**7,426,548**	4,868,593

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with International Accounting Standards 34, "Interim financial reporting", promulgated by the International Accounting Standards Board ("IASB"). It was authorised for issue on 17 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to International Financial Reporting Standards and one new interpretation that are first effective for the current accounting period of the Group and the Company.

These developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

Save as the above, 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 2010.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 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 periods ended 30 June 2011 and 2010 is set out below.

	Six months ended 30 June					
	Chilled and frozen meat		Processed meat products		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**14,276,531**	6,830,625	**2,179,547**	1,862,687	**16,456,078**	8,693,312
Inter-segment revenue	**648,904**	689,101	**–**	–	**648,904**	689,101
Reportable segment revenue	**14,925,435**	7,519,726	**2,179,547**	1,862,687	**17,104,982**	9,382,413
Depreciation and amortisation for the period	**(151,726)**	(103,324)	**(35,404)**	(33,454)	**(187,130)**	(136,778)
Government subsidies	**324,840**	459,320	**33,136**	1,531	**357,976**	460,851
Reportable segment profit	**1,359,425**	1,146,706	**384,795**	319,949	**1,744,220**	1,466,655
Income tax expenses	**(3,456)**	(10,954)	**(102,413)**	(74,725)	**(105,869)**	(85,679)

(b) Reconciliation of reportable segment revenue and profit

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Revenue		
Total revenue from reportable segments	**17,104,982**	9,382,413
Elimination of inter-segment revenue	**(648,904)**	(689,101)
Consolidated revenue	**16,456,078**	8,693,312
Profit		
Reportable segment profit	**1,744,220**	1,466,655
Elimination of inter-segment profits	**4,488**	(1,188)
Reportable segment profit derived from Group's external customers	**1,748,708**	1,465,467
Share of losses of associates	**(274)**	(121)
Share of loss of a jointly controlled entity	**(168)**	–
Net finance costs	**(12,379)**	(53,299)
Income tax expense	**(106,024)**	(85,888)
Unallocated head office and corporate expenses	**(14,846)**	(14,114)
Consolidated profit for the period	**1,615,017**	1,312,045

4 OTHER OPERATING INCOME

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Government subsidies	**357,976**	460,851
Recognition of negative goodwill arising on business combinations	**–**	133,289
Rental income	**11,294**	15,884
Sales of scrap	**3,373**	1,993
Sundry income	**14,798**	21,489
	387,441	633,506

5 PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
(a) Net finance costs		
Interest on bank and other loans wholly repayable within five years	**99,552**	73,151
Less: Interest expense capitalised into properties under development	**(11,413)**	(4,584)
	88,139	68,567
Bank charges	**3,828**	1,995
Interest on lease obligation	**3,175**	3,055
Net foreign exchange gain	**(37,521)**	(4,819)
Interest income from bank deposits	**(20,556)**	(12,967)
Net gain on sales of available-for-sale financial assets	**(11,589)**	(115)
Change of fair value in financial derivatives	**(13,097)**	(2,417)
	12,379	53,299
(b) Other items		
Provision for/(reversal of) impairment loss on		
– trade and other receivables	**461**	(4,679)
– available-for-sale financial assets	**1,193**	–
Amortisation of lease prepayments	**24,795**	17,262
Depreciation	**163,037**	119,807
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**11,850**	8,494
– contingent rent	**4,051**	3,410
Loss on disposal of property, plant and equipment	**596**	1,467

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Current tax expense	**84,902**	68,541
Deferred tax expense	**21,122**	17,347
	106,024	85,888

(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 2011 and 2010.

(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 2011 (six months ended 30 June 2010: 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 2011 and 2010.

(iii) Pursuant to Xinzhengfa (2002) No. 29 and the investment agreement entered into with the Administration Committee of Xinjiang Shihezi Economic and Technological Development Zone ("新疆石河子市經濟技術開發區管委會"), Xinjiang Yurun Food Co., Ltd. is entitled to a reduced PRC corporate income tax rate of 15% for the year 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.

As at 30 June 2011, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$5,877,451,000 (31 December 2010: HK$4,631,484,000). Deferred tax liabilities of HK$41,383,000 (31 December 2010: HK$54,118,000) in respect of the undistributed profits of HK$827,666,000 (31 December 2010: HK$1,082,365,000) were not recognised as at 30 June 2011 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 are 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 2011 was 6.2% (six months ended 30 June 2010: 6.1%).

7 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 HK$1,608,850,000 (six months ended 30 June 2010: HK$1,309,437,000) and the weighted average number of ordinary shares of 1,813,883,000 (six months ended 30 June 2010: 1,718,255,000).

(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 HK$1,608,850,000 (six months ended 30 June 2010: HK$1,309,437,000) and the diluted weighted average number of ordinary shares of 1,827,133,000 (six months ended 30 June 2010: 1,763,323,000) after adjusting the effect of deemed issue of shares under the Company's share option scheme.

8 TRADE AND OTHER RECEIVABLES

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

	30 June 2011 *HK$'000*	31 December 2010 *HK$'000*
Trade receivables		
– Within 30 days	**470,609**	391,064
– 31 days to 90 days	**238,422**	105,249
– 91 days to 180 days	**33,708**	72,286
– Over 180 days	**32,820**	7,369
	775,559	575,968
Less: Provision for impairment of trade receivables	**(7,275)**	(6,696)
Total trade receivables, net of impairment loss	**768,284**	569,272
Bills receivable	**6,020**	27,596
Value-added tax ("VAT") recoverable	**523,337**	414,354
Amounts due from related companies	**624**	158
Deposits and prepayments	**73,110**	56,905
Derivative financial instruments	**29,440**	23,576
Others	**69,448**	97,825
	1,470,263	1,189,686

9 TRADE AND OTHER PAYABLES

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

	30 June 2011 *HK$'000*	31 December 2010 *HK$'000*
Trade payables		
– Within 30 days	**894,924**	560,327
– 31 days to 90 days	**94,024**	50,414
– 91 days to 180 days	**18,510**	12,610
– Over 180 days	**23,047**	13,548
Total trade payables	**1,030,505**	636,899
Bills payable	**21,641**	–
Receipts in advance	**313,506**	216,885
Deposit from customers	**101,942**	75,078
Salary and welfare payables	**101,797**	119,554
VAT payable	**2,967**	932
Payables for acquisition of property, plant and equipment	**549,460**	273,766
Other payables and accruals	**678,933**	494,007
	2,800,751	1,817,121

10 DIVIDENDS

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Interim dividend proposed after the balance sheet date of HK$0.22 (six months ended 30 June 2010: HK$0.20) per share	**399,172**	352,657

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	
	2011	2010
	HK$'000	*HK$'000*
Final dividend in respect of the financial year ended 31 December 2010, approved and paid during the following interim period, of HK$0.20 (year ended 31 December 2009: HK$0.15) per share	**362,883**	264,493

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.22 per share for the six months ended 30 June 2011 (for the six months ended 30 June 2010: HK$0.20 per share) which shall be payable on or about Wednesday, 14 September 2011 to shareholders whose names appear on the Register of Members of the Company ("Register of Members") on Friday, 2 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 1 September 2011 to Friday, 2 September 2011, 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 Wednesday, 31 August 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

During the Review Period, the macro economic development in China remained promising with ongoing expansion in domestic consumption. Quality meat products market maintained growth momentum against the backdrop of consumers' increasing disposable income and demand for quality meat products. However, significant increases in raw material cost, labour cost and transportation cost during the Review Period brought tremendous challenges to the pork products industry in China. Leveraged on its improving network of nation-wide slaughtering capacity, flexibility of upstream and downstream businesses, a forward-looking strategy in capacity expansion as well as supportive agricultural policies of both central and local governments, the Group believes it not only successfully overcame all these challenges, but also maintained a stable and remarkable growth in business and profitability during the Review Period.

During the Review Period, the Central Government continued to promote orderly development of the hog slaughtering industry in China and implemented the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" that encouraged industry consolidation and sustainable and stable development.

During the Review Period, increase in feed stock price and labour costs together with impact from hog breeding cycles boosted up domestic hog price significantly as compared to same period last year, making the business environment of hog slaughtering and meat products industry hostile and challenging. However, sound and sustainable economic development and Central Government's favourable and supportive industry policies, as well as demand for quality meat products in China will continue to create business development opportunities for Chinese meat products market and large-scale slaughtering enterprises for further expansion.

Business Review

In the first half of 2011, despite the challenge arising from hog price volatility and tight hog supplies, the Group was able to achieve stable business growth on the back of its product quality, brand advantage and bargaining power, and leading nation-wide market position and production network. Chilled pork products and low temperature meat products ("LTMP") with higher added value continued to be the key drivers of business growth for the Group.

Product Quality and R&D

In addition to its operation philosophy in and emphasis on food safety, the Group at the same time continued to expand its research and development team, focusing on R&D of mid-to-high end products and developing competitive products to maintain competitive advantages and reinforce leading market position. During the Review Period, due to accelerating urbanisation, surging consumption and demand for high quality mid-to-high end meat products, the Group's overall sales volume of upstream and downstream businesses (before inter-segment eliminations) increased significantly to 835,000 tons, up 185,000 tons as compared to same period last year.

Sales and Distribution

Chilled pork and LTMP, as the high-end products with higher gross margin and added value of the Group, continued to play a vital role in the growth of the Group's overall turnover and profits during the Review Period. In the first half of 2011, sales of chilled pork reached HK$12.127 billion, doubling that of same period last year, accounting for approximately 71% (1H2010: 63%) of total turnover before inter-segment eliminations and approximately 81% (1H2010: 79%) of total turnover of the upstream business segment. Sales of LTMP was HK$1.993 billion, representing an increase of 14.0% over same period last year, accounting for approximately 12% (1H2010: 19%) of total turnover before inter-segment eliminations and approximately 91% (1H2010: 94%) of total turnover of the downstream business segment.

Production Facilities and Production Capacity

To enlarge market share and satisfy demand for its products, the Group continued to increase production capacity through construction of new plants, selective acquisitions and improvements in existing production facilities.

With respect to upstream slaughtering segment, the slaughtering capacity of the Group reached 41.00 million heads per year as at 30 June 2011, representing an increase of 5.40 million heads as compared to that as at the end of 2010. With an aim to strengthening its leading position and capture tremendous business opportunities arising from industry consolidation, the Group will continue to expand production capacity in the coming years, targeting an upstream slaughtering capacity of 70 million heads by the end of 2015.

As at 30 June 2011, the Group's annual downstream meat processing capacity was 304,000 tons which was same as at the end of 2010. The Group will continue to prudently expand processing capacity in the coming years, targeting to increase market coverage, reduce bottlenecks and upgrade key production facilities. During the Review Period, construction of the Group's processed meat production base in Nanjing with a designed annual production capacity of 100,000 tons progressed well. Operations are expected to commence in stages in 2012 and therefore, downstream capacity will significantly increase by then.

Financial Review

The Group recorded a turnover of HK$16.456 billion in the first half of 2011, representing a significant increase of 89.3% as compared to HK$8.693 billion of same period last year. Despite hog price fluctuation during the Review Period, the Group continued to record a sales increase in the first half of 2011 by leveraging on its "Yurun" brand and leading nation-wide production network. Sales volume of upstream chilled pork grew significantly by 35.7% year-on-year. Since the Group maintained a market-driven pricing strategy, the average selling price of upstream products increased significantly following the soar in hog price during the Review Period, resulting in a turnover increase tremendously by 98.5% from HK$7.520 billion in the first half of 2010 to HK$14.925 billion in the first half of 2011. Benefiting from its brand recognition, pricing power, optimization of product mix and demand for high-quality meat products from consumers, the sales of downstream products increased by 17.0% compared to same period last year.

During the Review Period, the Group recorded a net profit of HK$1.609 billion (1H2010: HK$1.309 billion), up 22.9% from same period last year. Diluted earnings per share was HK$0.881, representing a growth of 18.6% over HK$0.743 in same period last year. Core net profit, represented profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains of the Group, was HK$1.213 billion (1H2010: HK$0.710 billion), a strong growth of 70.8% from same period last year.

Turnover

Chilled and Frozen Pork

During the Review Period, the Group achieved growth in slaughtering volume of 24.8% as compared to same period last year. The Group continued to expand market share and maintained strong competitive advantages and leading position in the industry through flexible strategic planning in distribution and production network.

In the first half of 2011, total sales from upstream business (before inter-segment eliminations) soared by 98.5% to HK$14.925 billion as compared to same period last year. Sales of chilled pork increased by more than double and reached HK$12.127 billion, accounting for approximately 81% (1H2010: 79%) of the total turnover of the upstream business. In line with the strategy of the Group, sales of frozen pork increased by 76.1% as compared to same period last year to HK$2.798 billion, accounting for approximately 19% (1H2010: 21%) of the total turnover of the upstream business.

Processed Meat Products

During the Review Period, sales of processed meat products reached HK$2.180 billion (1H2010: HK$1.863 billion), up 17.0% year-on-year. The Group achieved sustainable and satisfactory growth on the back of its brand recognition and marketing efforts, improved product mix and launch of products with higher profit margins.

During the Review Period, turnover of LTMP was HK$1.993 billion, representing an increase of 14.0% as compared to HK$1.747 billion in the first half of 2010. LTMP remained a key revenue driver for the processed meat business, accounting for approximately 91% (1H2010: 94%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$187 million (1H2010: HK$116 million), accounting for approximately 9% (1H2010: 6%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 53.6% from HK$1.345 billion in the first half of 2010 to HK$2.066 billion during the Review Period. Gross profit margin decreased by 2.9 percentage points to 12.6% from 15.5% in the first half of 2010. The decrease in gross profit margin was mainly due to substantial sales increase in upstream products, which have lower margins as compared to downstream products, and slight decrease in chilled pork margin during the Review Period.

With respect to the upstream business, gross profit margin of chilled and frozen pork was 10.2% and 7.2% respectively (1H2010: 11.7% and 6.6% respectively). Overall gross profit margin was 9.7%, representing a slight decrease of 0.9 percentage point as compared to 10.6% of same period last year. The decrease was mainly due to technical delay in adjusting chilled pork price amidst rapid growth in hog price.

With respect to downstream products, gross profit margin of LTMP was 29.1%, representing a slight decrease of 0.8 percentage point compared to 29.9% of same period last year. Gross profit margin of HTMP was 19.8%, representing a decrease of 1.2 percentage points compared to that of same period last year. Overall gross profit margin of the downstream segment was 28.3%, a decrease of 1.1 percentage points as compared to 29.4% of same period last year. The decrease in gross profit of downstream was mainly due to increase in raw material costs during the Review Period.

Other Operating Income

During the Review Period, other operating income of the Group was HK$387 million, representing a decrease as compared to HK$634 million of same period last year. Other operating income mainly comprised government subsidies and negative goodwill. Government subsidies for the Review Period, which were received by the Group and were recognised upon receipt of government confirmation documents, decreased to HK$358 million from HK$461 million of same period last year. There was no negative goodwill in the Review Period while HK$133 million was recognised from business combinations in same period last year.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK$720 million, representing an increase of 36.5% as compared to HK$527 million of same period last year. Operating expenses represented 4.4% of the Group's turnover, a decrease of 1.7 percentage points as compared to 6.1% year-on-year, demonstrating that the Group was able to control cost effectively amid rapid business expansion.

Operating Profit

During the Review Period, operating profit of the Group was HK$1.734 billion, up 19.5% from HK$1.451 billion of same period last year.

Net Finance Costs

During the Review Period, net finance costs of the Group was HK$12.38 million as compared to HK$53.30 million of same period last year.

Income Tax

The total income tax for the six months ended 30 June 2011 was HK$106 million, an increase of 23.4% as compared to HK$86 million of same period last year. Effective tax rate was 6.2% which was in line with 6.1% of same period last year.

Net Profit

Taking into account of all the above factors, net profit of the Group soared 22.9% from HK$1.309 billion in the first half of 2010 to HK$1.609 billion in the first half of 2011. Net profit margin for the Review Period was 9.8%, representing a decrease of 5.3 percentage points from 15.1% year-on-year. Core net profit of the Group was HK$1.213 billion (1H2010: HK$0.710 billion), up 70.8% over same period last year. In general, the Group realised remarkable growth in all aspects and again, its strong competitive advantages on strategic planning and business operations were proven.

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities during the Review Period. The Group's net cash inflow from operating activities during the Review Period amounted to HK$2.182 billion with a cash balance including pledged deposits of bank loan of HK$7.934 billion as at 30 June 2011, representing an increase of HK$1.583 billion as compared to HK$6.351 billion as at 31 December 2010. During the Review Period, the Group maintained an operating cashflow surplus after the expenditure in investing activities.

As at 30 June 2011, the Group had outstanding bank loans of HK$5.142 billion, representing an increase of HK$1.461 billion from HK$3.681 billion as at 31 December 2010. Among which, HK$4.417 billion of our borrowings was repayable within one year, representing an increase of HK$1.266 billion as compared to that as at 31 December 2010. Taking into account of funds used for strategic acquisitions and investments in production facilities during the Review Period, the Group was still able to maintain prudent financial management and sufficient working capital for daily operation and other funding requirements.

Assets and Liabilities

As at 30 June 2011, the total assets and total liabilities of the Group were HK$24.324 billion and HK$8.333 billion respectively, representing an increase of HK$3.963 billion and HK$2.455 billion as compared to those as at 31 December 2010 respectively.

As at 30 June 2011, property, plant and equipment of the Group amounted to HK$9.762 billion, representing an increase of HK$1.724 billion as compared to 31 December 2010. Property, plant and equipment comprised construction in progress amounted to HK$2.550 billion and no depreciation was provided for these construction in progress items during the Review period.

As at 30 June 2011, lease prepayment of the Group amounted to HK$2.846 billion (31 December 2010: HK$2.207 billion). This represented purchase cost of land use right which was amortised on a straight-line basis over the respective periods of the rights.

Non-current prepayments of the Group represented prepayments for acquisitions of land use rights and property, plant and equipment. As at 30 June 2011, the balance was HK$707 million.

As at 30 June 2011, equity attributable to equity holders of the Company was HK$15.937 billion, representing an increase of HK$1.501 billion as compared to HK$14.437 billion as at 31 December 2010.

As at 30 June 2011, 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 25.0%, an increase of 3.9 percentage points from 21.1% as at 31 December 2010. As at 30 June 2011, the Group was in a net cash position.

Charges on Assets

As at 30 June 2011, certain properties and lease prepayments of the Group with a carrying amount of HK$44.03 million and HK$31.60 million respectively (31 December 2010: HK$44.76 million and HK$31.95 million respectively) were pledged against certain bank loans of the Group with a total amount of HK$25.83 million (31 December 2010: HK$80.87 million).

As at 30 June 2011, the secured loan of the Group totaling HK$370 million were secured by pledged deposits denominated in RMB amounting to HK$370 million (31 December 2010: Nil).

As at 30 June 2011, intragroup bills payable totaling HK$301 million (31 December 2010: HK$379 million) were secured by pledged deposits amounting to HK$72 million (31 December 2010: HK$161 million). The corresponding intragroup bills receivable totaling HK$301 million (31 December 2010: HK$379 million) were discounted with recourse for proceeds of HK$296 million (31 December 2010: HK$377 million).

Other Development

Towards the end of the Review Period, there were certain untrue negative media reports on the businesses and operations of the Group. The Board took a stern view towards the allegations of the Group. As such, the Group has made several official clarifications during the period from June to August 2011. Please refer to the clarification announcements published by the Company during the period for details.

The Board noticed that the recent sales of the downstream processed meat products of the Group were not as satisfactory as expected. The Board could not rule out that it was caused by a series of the recent negative reports which might have impact on the business of the Group. However, the Board hereby reinstates that in spite of the uncertain environment and future challenges, the Group will endeavor to make the best effort for the long term development of the Group in return for support and trust of the shareholders of the Group.

Significant Investment, Material Acquisition and Disposals of Subsidiaries, Future Plans for Material Investments or Acquisition of Capital Assets

In March 2011, the Group disposed all its equity interest in Itoham Foods Beijing Co., Ltd. to a third party for a total consideration of HK$2,469,000. Save as disclosed above, the Group neither held any other substantial investment nor had any substantial acquisition and sale of subsidiaries during the Review Period. As at the date of this announcement, the Group has no plan to make any substantial investment in or acquisition of capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 30 June 2011.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euro or Hong Kong dollars, the Group's transactions are mainly settled in Renminbi. The functional currency of operating subsidiaries of the Group in the PRC is Renminbi, which is not freely convertible into foreign currencies. The Group has entered into an Euro foreign exchange forward contract. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

As at 30 June 2011, the Group recruited about 26,510 (31 December 2010: 21,231) employees in the PRC and Hong Kong. During the Review Period, total staff cost was HK$407 million, accounting for 2.5% of the turnover (31 December 2010: HK$598 million, accounting for 2.8% of the turnover).

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 bonus and a share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources for providing continuing education and training for management and other employees so as to enhance their skills and knowledge.

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 2011.

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 its 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 2011.

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 2011, except for the issue of 3,260,000 shares of the Company under its share option scheme.

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 2011.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The 2011 interim report of the Company containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk) and the Company's website (www.yurun.com.hk) in due course.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 17 August 2011

As at the date of this announcement, the executive directors of the Company are Zhu Yicai, Zhu Yiliang, Feng Kuande, Ge Yuqi and Yu Zhangli; the non-executive directors are Jiao Shuge (alias Jiao Zhen), Wang Kaitian and Li Chenghua; and the independent non-executive directors are Gao Hui, Qiao Jun and Chen Jianguo.

* *For identification purposes only*