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 2012

Yurun Food

Contents

Corporate Information

Board of Directors

Executive Directors

Yu Zhangli *(Chairman)*
Zhu Yiliang
Feng Kuande
Ge Yuqi

Non-executive Directors

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

Independent Non-executive Directors

Gao Hui
Qiao Jun
Chen Jianguo

Audit Committee

Gao Hui *(Chairman)*
Jiao Shuge *(alias* Jiao Zhen*)*
Chen Jianguo

Remuneration Committee

Qiao Jun *(Chairman)*
Gao Hui
Yu Zhangli

Nomination Committee

Chen Jianguo *(Chairman)*
Gao Hui
Yu Zhangli

Company Secretary

Lee Wing Sze, Rosa *HKICPA, FCCA*

Authorized Representatives

Yu Zhangli
Lee Wing Sze, Rosa

Auditors

KPMG

Principal Bankers

Bank of Communications Co., Ltd.
Bank of China Limited
Agricultural Bank of China Limited
China Merchant Bank Co., Ltd.
China CITIC Bank Corporation Limited
DBS Bank Ltd., Hong Kong Branch

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office

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

Principal Place of Business in Hong Kong

Rooms 4207-08, 42nd Floor
Tower One, Lippo Centre
89 Queensway
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (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

Legal Advisors

As to Hong Kong Law

Norton Rose Hong Kong
Cleary Gottlieb Steen & Hamilton (Hong Kong)
Iu, Lai & Li Solicitors & Notaries

As to Bermuda Law

Conyers Dill & Pearman

Stock Code

1068

Website

www.yurun.com.hk

Management Discussion and Analysis

Industry Overview

In the first half of 2012, Chinese macro-economy faced severe challenges. Meanwhile, the Chinese hog slaughtering and meat products processing industry is still affected by food safety discussions since last year, and in addition, under the effect of the negative impact of the early Chinese New Year Festival in January this year, consumer demand for pork during the traditional peak season in early spring was substantially weakened, which brought tremendous pressures to the industry. Due to the slow down of domestic economic growth, continual increase of production costs and other unfavourable factors, the Chinese hog slaughtering and meat products processing industry faced tremendous challenges, especially from slower-than-expected market demand recovery. China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group") faced the greatest operating pressure since the listing.

During the six months ended 30 June 2012 (the "Review Period"), hog prices decreased continuously. In May 2012, in order to prevent hog prices from excessive decline, and to protect the interests of domestic hog farmers, as well as to stabilize hog production, the Central Government initiated state reserve purchases of frozen pork in several regions respectively in accordance with the latest "Regulatory Plan on Cyclical Fluctuations in Live Hog Prices". The plan effectively restored market confidence, curbed the falling price trend, and encouraged farmers to increase farm sizes, so as to ensure future hog supply and stable development of the industry. However, due to sluggish market demand and continually increasing feed stock prices, many individual pig farmers were forced to sell-off hogs, which resulted in oversupply in the hog market. Hog prices decreased again in July 2012. In order to stabilize hog prices, the Central Government launched another round of state reserve purchases of frozen pork in August, as the hog-to-corn price ratio fell to warning levels. The Group believes that the new round of state reserve purchases of frozen pork will support hog prices in the short term.

The Central Government continued to promote the orderly development of the Chinese hog slaughtering industry, and further implemented the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" (the "Guideline") during the Review Period. The implementation of the Guideline gradually eliminated unqualified hog slaughtering capacity in Henan, Anhui and Guangdong provinces so as to continually encourage consolidation and orderly development of the Chinese hog slaughtering industry, and to reinforce the sustained and stable development of the slaughtering industry.

Business Review

During the Review Period, Yurun Food has committed to the continual development of its overall business by intensifying brand building and implementing diversified marketing strategies, as well as adopting rigorous cost control measures and product quality control procedures of international standards at all times. However, due to the intensified market competition, extensive sales promotion activities, low market demand and significantly reduced pork prices, as well as continually increasing labour and transportation costs, the business of the Group had encountered enormous challenges. To ensure that the Group's long-term development will not be influenced by short-term fluctuations, Yurun Food has adopted prudent measures to strictly control and reinforce cooperation with a broad range of sales partners for the purpose of maintaining its competitive advantages in the market and consolidating its business foundation. Despite the unsatisfactory business performance of the Group during the Review Period and uncertain macroeconomic environment in the second half of 2012, the Board is confident that the Group will be able to overcome all these challenges through the implementation of a series of measures, resume business and profit growth and continually promote the long-term steady development of the Group.

Product Quality and R&D

It has always been Yurun Food's aim to produce highest quality products so as to satisfy increasing market demand for quality meat products. The Group continued to focus on the development of competitive products so as to maintain its competitive advantages and consolidate its market share in the industry.

Sales and Distribution

As the Group's products with relatively higher added value and gross profit margin, chilled pork and low temperature meat products ("LTMP") continued to play an important role in the Group's business as a whole during the Review Period. In the first half of 2012, sales of chilled pork of the Group was HK$9.951 billion, representing a decrease of 17.9% over same period last year, accounting for approximately 78% of total turnover prior to inter-segment eliminations (1H2011: 71%) and approximately 86% of total turnover of the upstream slaughtering segment (1H2011: 81%). Sales of LTMP was HK$1.169 billion, representing a decrease of 41.3% over same period last year, accounting for approximately 9% of total turnover of the Group prior to inter-segment eliminations (1H2011: 12%) and approximately 90% of total turnover of the downstream processed meat segment (1H2011: 91%).

Influenced by the early Chinese New Year Festival this year and the lower growth of demand of the domestic meat products market as compared to same period last year, the Group's overall sales volume of upstream and downstream businesses (before inter-segment eliminations) decreased by approximately 27% as compared to the same period last year.

Production Facilities and Production Capacity

To fully capture business opportunities arising from industry consolidation, make forward-looking deployment in regions with ample hog production capacity and satisfy market demand for quality meat products, under the principle of strict control of investment costs, the Group prudently adjusted the rate of expansion in accordance with market changes, and at the same time progressively pursued last year's development plan and continued to increase production capacity through improvements in existing facilities and construction of new plants.

With respect to its upstream slaughtering segment, through construction of new plants in provinces like Anhui, Sichuan, Gansu and Jiangxi, the slaughtering capacity of the Group reached 48.45 million heads per year as at 30 June 2012, representing an increase of 2.40 million heads as compared to that at the end of 2011. The Group will continue to systematically expand its capacity and further enhance its nation-wide production capacity in the coming years and aim to reach a slaughtering capacity of 70 million heads by 2015, so as to strengthen its leading position in the industry and capture the tremendous business opportunities brought by industry consolidation.

As at 30 June 2012, the Group's annual downstream meat processing capacity was 307,000 tons, increased by approximately 3,000 tons compared with 31 December 2011. The Group will continue to orderly expand its capacity in the coming years, targeting to increase market coverage, reduce bottlenecks and upgrade key production facilities.

Financial Review

The Group recorded a turnover of HK$12.529 billion in the first half of 2012, representing a decrease of 23.9% as compared to HK$16.456 billion in same period last year. The Group recorded a net profit of HK$107 million (1H2011: HK$1.609 billion) in the first half of 2012, representing a decrease of 93.3% from same period last year. Diluted earnings per share was HK$0.059, representing a decrease of 93.3% over HK$0.881 in same period last year.

Turnover

Chilled and Frozen Pork

Influenced by the challenges of economic slowdown in China and food safety discussions of the industry, the Group's slaughtering volume decreased by 24.0% during the Review Period as compared to same period last year. With the adoption of diversified marketing strategies, the slaughtering volume of the Group during the Review Period has improved slightly since the second half of 2011, maintaining market share in major domestic markets and strengthening the Group's competitiveness.

In the first half of 2012, total sales from upstream business (before inter-segment eliminations) decreased by 22.9% to HK$11.504 billion as compared to same period last year. Amongst which, sales of chilled pork decreased by 17.9% to HK$9.951 billion, accounting for approximately 78% (1H2011: 71%) and approximately 86% (1H2011: 81%) of the total turnover before inter-segment eliminations and total turnover of the upstream business of the Group respectively. Sales of frozen pork decreased by 44.5% to HK$1.553 billion, accounting for approximately 14% of the total turnover of the upstream business (1H2011: 19%).

Processed Meat Products

During the Review Period, sales of processed meat products of the Group was HK$1.300 billion (1H2011: HK$2.180 billion), a decrease of 40.4% over same period last year. Specifically, turnover of LTMP was HK$1.169 billion, representing a decrease of 41.3% as compared to HK$1.993 billion in the same period last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 90% (1H2011: 91%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$131 million (1H2011: HK$187 million), accounting for approximately 10% (1H2011: 9%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by 87% from HK$2.066 billion in the first half of 2011 to HK$268 million during the Review Period. Gross profit margin decreased by 10.5 percentage points to 2.1% from 12.6% in the same period last year. The decrease in gross profit margin was mainly due to the weakened consumer confidence in the Chinese hog slaughtering and meat products processing industry which resulted from the food safety discussions last year, increasing difficulty to pass through costs due to weakened price negotiating power, the negative impact of the early Chinese New Year Festival, as well as continually increasing quarantine, labour and other auxiliary material costs.

Management Discussion and Analysis

With respect to the upstream business, gross profit margin of chilled pork and frozen pork was 2.4% and -11.1% respectively (1H2011: 10.2% and 7.2% respectively). The overall gross profit margin was 0.6%, representing a decrease of 9.1 percentage points as compared to 9.7% of the same period last year.

With respect to downstream processed meat products, gross profit margin of LTMP was 15.6%, representing a decrease of 13.5 percentage points as compared to 29.1% of the same period last year. Gross profit margin of HTMP was 10.5%, representing a decrease of 9.3 percentage points as compared to same period last year. Overall gross profit margin of the downstream segment was 15.1%, a decrease of 13.2 percentage points as compared to 28.3% of the same period last year.

Other Operating Income

During the Review Period, other operating income of the Group was HK$785 million, representing an increase of HK$397 million as compared to HK$387 million in the 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$854 million, representing an increase of 18.6% as compared to HK$720 million in the same period last year mainly due to increase of labour costs, advertising costs and depreciation. Operating expenses represented 6.8% of the Group's turnover, an increase of 2.4 percentage point as compared to 4.4% of same period last year.

Operating Profit

During the Review Period, operating profit of the Group was HK$199 million, representing a decrease of 88.5% from HK$1.734 billion over the same period last year.

Net Finance Costs

Net finance costs of the Group was HK$76.59 million during the Review Period while it was HK$12.38 million in same period last year. Net finance costs increased significantly compared with same period last year mainly due to foreign exchange gain of approximately HK$37 million from the appreciation of Renminbi ("RMB") in 2011. In the Review Period, the value of RMB was lower compared with the end of 2011 which has resulted in approximately HK$15 million of foreign exchange loss.

Income Tax

The income tax for the six months ended 30 June 2012 was HK$16.55 million, a decrease of 84.4% as compared to HK$106 million of same period last year. Effective tax rate for the year was 13.6%, representing an increase of 7.4 percentage points as compared to 6.2% in the same period last year. During the Review Period, although some subsidiaries incurred loss, the loss cannot be used to set off the profit of other subsidiaries. Those subsidiaries with taxable profit has to pay corporate income tax, thus the tax paid as a percentage of the consolidated net profit of the Group increased.

Net Profit

Taking into account of all the above factors, net profit of the Group decreased by 93.3% from HK$1.609 billion in the first half of 2011 to HK$107 million in the first half of 2012. Net profit margin for the Review Period was 0.9%, representing a decrease of 8.9 percentage points from 9.8% of the same period last year.

Financial Resources

As at 30 June 2012, the Group's cash balance together with the time deposits and pledged deposits were HK$3.561 billion, representing a decrease of HK$1.777 billion as compared to HK$5.338 billion as at 31 December 2011, which were mainly used for operating activities and capacity expansion.

As at 30 June 2012, the Group had outstanding loans of HK$6.470 billion, representing an increase of HK$544 million from HK$5.926 billion as at 31 December 2011. Amongst which, HK$4.801 billion of our borrowings was repayable within one year, representing a decrease of HK$341 million as compared to 31 December 2011. Taking into account of funds used for daily operation and investments in production facilities during the Review Period, the Group was still able to maintain prudent financial management. Having sufficient working capital together with adequate amount of unutilized credit facilities, the Group has adequate funds for daily operating activities and other funding requirements.

Assets and Liabilities

As at 30 June 2012, the total assets and total liabilities of the Group were HK$25.662 billion (31 December 2011: HK$25.479 billion) and HK$9.473 billion (31 December 2011: HK$9.307 billion) respectively, representing an increase of HK$182 million and HK$165 million as compared to those at 31 December 2011 respectively.

As at 30 June 2012, property, plant and equipment of the Group amounted to HK$13.492 billion (31 December 2011: HK$12.635 billion), representing an increase of HK$856 million as compared to 31 December 2011. Property, plant and equipment comprised construction in progress which amounted to HK$4.664 billion (31 December 2011: HK$4.239 billion) of which no depreciation was provided for during the Review Period.

Lease prepayment of the Group as at 30 June 2012 amounted to HK$3.464 billion (31 December 2011: HK$3.353 billion). This represented the purchase cost of land use rights which was amortised on a straight-line basis over the respective periods of the rights.

Non-current prepayments of the Group represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 30 June 2012, the balance was HK$784 million (31 December 2011: HK$852 million). The assets have not started to depreciate or amortize yet.

As at 30 June 2012, equity attributable to equity holders of the Company was HK$16.128 billion in total, representing an increase of HK$19 million as compared to HK$16.109 billion as at 31 December 2011.

As at 30 June 2012, 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 29.2%, representing a slight increase as compared to 27.5% as at 31 December 2011. As at 30 June 2012, after excluding cash, time deposits and pledged deposit, the gearing ratio of the Group was 13.5% (31 December 2011: 3.4%).

Charges on Assets

As at 30 June 2012, certain properties and construction in progress of the Group with a carrying amount of HK$143 million, and lease prepayments of the Group with a carrying amount of HK$285 million (31 December 2011: HK$128 million and HK$292 million respectively) were pledged against certain bank loans with a total amount of HK$1.480 billion (31 December 2011: HK$730 million).

Secured loans of the Group as at 30 June 2012 amounting to HK$6 million (31 December 2011: HK$116 million) were secured by pledged deposits denominated in RMB amounting to HK$6 million (31 December 2011: HK$131 million).

As at 30 June 2012, the bills payable and derivative financial instruments were secured by pledged deposits denominated in RMB amounting to HK$3 million (31 December 2011: HK$6 million) and HK$41 million (31 December 2011: HK$42 million) respectively.

As at 30 June 2012, intragroup bills payable totaling HK$245 million (31 December 2011: HK$Nil) were secured by pledged deposits amounting to HK$98 million. The corresponding intragroup bills receivable totaling HK$245 million (31 December 2011: HK$Nil) were discounted with recourse for proceeds of HK$238 million (31 December 2011: HK$Nil).

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

The Group did not hold any other substantial investment or have any substantial acquisition and sale of subsidiaries during the Review Period. As at the date of this report, 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 2012.

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 dollars or Hong Kong dollars, the Group's transactions are mainly settled in RMB. The functional currency of operating subsidiaries of the Group in the People's Republic of China (the "PRC") is RMB, which is not freely convertible into foreign currencies. The Group has entered into an Euro foreign exchange forward contract during the Review Period. 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.

Management Discussion and Analysis

Human Resources

As at 30 June 2012, the Group had approximately 25,000 (31 December 2011: 27,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK$468 million, accounting for 3.7% of the turnover of the Group (1H2011: HK$407 million, accounting for 2.5% 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 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.

Other Information

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2012 (2011: HK$0.22 per share).

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2012, the number of issued ordinary shares of the Company was 1,822,755,650; and the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("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") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Interest in shares and underlying shares of the Company

Name of Directors	Company/ name of associated corporation	Capacity	Interest in ordinary shares	Interest in underlying shares[2]	Total	Approximate percentage of interest in such corporation
Zhu Yicai[1]	Company	Interest of a controlled corporation	470,699,900[1]	–	470,699,900	25.82%
	Willie Holdings Limited	Beneficial owner	100[1]	–	100	100.00%
Yu Zhangli	Company	Beneficial owner	–	5,887,500	5,887,500	0.32%
Zhu Yiliang	Company	Beneficial owner	–	6,075,000	6,075,000	0.33%
Feng Kuande	Company	Beneficial owner	–	5,250,000	5,250,000	0.29%
Ge Yuqi	Company	Beneficial owner	–	6,000,000	6,000,000	0.33%

Notes:

(1) Zhu Yicai ("Mr. Zhu") has resigned as an executive Director and the chairman of the Board of the Company with effect from 7 July 2012. Willie Holdings Limited ("Willie Holdings") is owned as to 93.41% by Mr. Zhu and 6.59% by Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. Willie Holdings was interested in 470,699,900 shares of the Company as at 30 June 2012. Mr. Zhu is deemed to be interested in the shares of the Company held by Willie Holdings as well as the entire issued share capital of Willie Holdings by virtue of Part XV of the SFO.

(2) The interests in underlying shares represent the interests in share options granted on 3 September 2011 pursuant to the Company's share option scheme, details of which are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 June 2012, none of the Directors or/and the 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.

Other Information

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2012, so far as is known to the Directors and chief executive of the Company, the interests or short positions of substantial shareholders/other persons (other than Directors and chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name	Nature	Number of shares	Approximate percentage of the issued shares
Willie Holdings	Long position	470,699,900[1]	25.82%
Ms. Wu	Long position	470,699,900[1]	25.82%
Morgan Stanley[2]	Long position	162,426,279	8.91%
	Short position	164,584,036	9.03%
Capital Research and Management Company[3]	Long position	128,838,000	7.07%
Credit Suisse Group AG[4]	Long position	121,582,118	6.67%
	Short position	69,911,312	3.84%

Notes:

(1) These shares represent the shares of the Company 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, 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 corporations controlled by Morgan Stanley.

(3) So far as is known to the Directors of the Company, these shares were held by Capital Research and Management Company in the capacity of investment manager.

(4) So far as is known to the Directors of the Company, these shares were held by corporations controlled by Credit Suisse Group AG.

Save as disclosed above, as at 30 June 2012, 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 or underlying shares of the Company.

Share Option Scheme

The Company unconditionally adopted a share option scheme ("Share Option Scheme") on 3 October 2005. The following share options were outstanding under the Share Option Scheme during the Review Period:

	Number of shares which may be issued pursuant to the share options							
Name or category of participant	As at 1 January 2012	Granted during the Review Period	Exercised during the Review Period	Lapsed during the Review Period	As at 30 June 2012	Exercise price per share[4] HK$	Date of grant (DD.MM.YYYY)	Option period[(1) & (2)] (DD.MM.YYYY)
Directors								
Yu Zhangli	7,850,000	–	–	(1,962,500)	5,887,500	18.04	03.09.2011	03.09.2011 – 02.09.2021
Zhu Yiliang	8,100,000	–	–	(2,025,000)	6,075,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
Feng Kuande	7,000,000	–	–	(1,750,000)	5,250,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
Ge Yuqi	8,000,000	–	–	(2,000,000)	6,000,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
Subtotal	30,950,000[3]	–	–	(7,737,500)	23,212,500[3]			
Other employees (including ex-employees)								
In aggregate	7,634,000	–	–	–	7,634,000	7.46	10.11.2006	10.11.2006 – 09.11.2016
	52,450,000	–	–	(13,112,500)	39,337,500	18.04	03.09.2011	03.09.2011 – 02.09.2021
Subtotal	60,084,000	–	–	(13,112,500)	46,971,500			
Total	91,034,000	–	–	(20,850,000)	70,184,000			

Notes:

(1) All of the share options granted on 10 November 2006 have been vested in the grantees.

(2) Subject to the satisfaction of other conditions such as performance targets of the Group and/or individual grantees, if any, as set out in the respective offer letters, the share options granted on 3 September 2011 will be vested in the grantees in four equal tranches, i.e., 25% of the share options will be vested after the publication of the results of the financial years ended 2011, 2012, 2013 and 2014 respectively.

(3) The share options represent personal interest held by the relevant Directors as beneficial owners.

(4) The closing price of the shares of the Company immediately before the date of grant (i.e. 9 November 2006 and 2 September 2011 respectively) were HK$7.58 and HK$18.04 respectively.

(5) No share options were cancelled under the Share Option Scheme during the Review Period.

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

Other Information

Corporate Governance

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 Corporate Governance Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2012.

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 2012.

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 2012.

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 2012.

Change of Director and Change in Directors' Information

Mr. Zhu Yicai has tendered his resignation as an executive Director, the chairman of the Board, and a member of both the Nomination Committee and Remuneration Committee of the Company, all with effect from 7 July 2012. Mr. Zhu has been appointed as the Honorary Chairman and Senior Advisor to the Board on the same date.

Pursuant to the requirements of Rule 13.51B(1) of the Listing Rules, the change in Directors' information since the date of the 2011 Annual Report or subsequent to the announcement dated 6 July 2012 regarding the changes of chairman of the Board, member of the Board Committees, chief executive officer and authorized representative of the Company are set out below:

In response to the Group's performance and the market condition, the Board has resolved to increase the remuneration of the Directors for the year ending 2012. The basic remuneration per annum of each of the executive Directors would be increased from US$88,000 to US$100,000. The annual remuneration of non-executive Directors (except for Jiao Shuge, who would continue receiving no remuneration) and independent non-executive Directors (except for Gao Hui) would each be increased from RMB110,000 to RMB127,000. The annual remuneration of Gao Hui, an independent non-executive Director, would be increased from HK$200,000 to HK$230,000.

The Company was informed by Jiao Shuge (*alias* Jiao Zhen) that after the Company's last published 2011 Annual Report, the changes in his biographical details are as follows:

(1) His position in China Mengniu Dairy Company Limited has been changed from non-executive director to independent non-executive director with effect from 12 April 2012.

(2) His position in Joyoung Company Limited has been changed from non-executive director to director.

(3) His position as a director of CDH China Fund L.P. has been changed to director and managing partner of CDH China Management Company Limited.

Save as disclosed above, there is no other information required to be updated and disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By Order of the Board
Yu Zhangli
Chairman

Hong Kong, 15 August 2012

Review Report

Review report to the board of directors of
China Yurun Food Group Limited
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 13 to 30 which comprises the consolidated balance sheet of China Yurun Food Group Limited as of 30 June 2012 and the related consolidated income statement, statement of comprehensive income, 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 2012 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

15 August 2012

Consolidated Income Statement

for the six months ended 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2012 $'000	 2011 $'000
Turnover	4	**12,529,192**	16,456,078
Cost of sales		**(12,260,928)**	(14,390,032)
Gross profit		**268,264**	2,066,046
Other operating income	6	**784,610**	387,441
Distribution expenses		**(370,101)**	(363,605)
Administrative and other operating expenses		**(483,527)**	(356,020)
Results from operating activities		**199,246**	1,733,862
Finance income		**32,577**	82,763
Finance costs		**(109,167)**	(95,142)
Net finance costs	7(a)	**(76,590)**	(12,379)
Share of losses of associates (net of income tax)		**(288)**	(274)
Share of loss of a jointly controlled entity (net of income tax)		**(423)**	(168)
Profit before income tax	7	**121,945**	1,721,041
Income tax expense	8	**(16,553)**	(106,024)
Profit for the period		**105,392**	1,615,017
Attributable to:			
Equity holders of the Company		**107,011**	1,608,850
Non-controlling interests		**(1,619)**	6,167
Profit for the period		**105,392**	1,615,017
Earnings per share			
Basic	10(a)	**$0.059**	$0.887
Diluted	10(b)	**$0.059**	$0.881

The notes on pages 19 to 30 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 2012 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2012	2011
	Note	**$'000**	$'000
Profit for the period		**105,392**	1,615,017
Other comprehensive income for the period (after reclassification adjustments)	9		
Foreign currency translation differences for foreign operations		**(88,078)**	231,041
Total comprehensive income for the period		**17,314**	1,846,058
Attributable to:			
Equity holders of the Company		**19,298**	1,839,056
Non-controlling interests		**(1,984)**	7,002
Total comprehensive income for the period		**17,314**	1,846,058

The notes on pages 19 to 30 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2012 $'000	31 December 2011 $'000
Non-current assets			
Property, plant and equipment	11	**13,491,660**	12,635,472
Investment properties		**209,554**	214,463
Lease prepayments		**3,389,646**	3,281,131
Goodwill		**93,294**	93,847
Interest in an associate		**5,062**	5,381
Interest in a jointly controlled entity		**23,505**	24,069
Non-current prepayments		**783,633**	852,209
Deferred tax assets		**21,843**	22,654
		18,018,197	17,129,226
Current assets			
Inventories	12	**1,962,685**	1,453,415
Other investments	13	**220,805**	–
Current portion of lease prepayments		**74,775**	71,785
Trade and other receivables	14	**1,805,310**	1,466,105
Income tax recoverable		**18,595**	20,269
Pledged deposits		**148,503**	178,735
Time deposits		**141,403**	90,866
Cash and cash equivalents	15	**3,271,392**	5,068,812
		7,643,468	8,349,987
Current liabilities			
Bank loans		**4,800,548**	5,141,227
Finance lease liabilities		**572**	562
Trade and other payables	16	**2,655,406**	3,014,529
Income tax payable		**11,598**	33,500
		7,468,124	8,189,818
Net current assets		**175,344**	160,169
Total assets less current liabilities		**18,193,541**	17,289,395

Consolidated Balance Sheet

at 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	30 June 2012 $'000	31 December 2011 $'000
Non-current liabilities		
Bank loans	**1,669,033**	784,798
Finance lease liabilities	**176,201**	177,539
Deferred tax liabilities	**159,246**	155,311
	2,004,480	1,117,648
NET ASSETS	**16,189,061**	16,171,747
EQUITY		
Share capital	**182,276**	182,276
Reserves	**15,945,804**	15,926,506
Total equity attributable to equity holders of the Company	**16,128,080**	16,108,782
Non-controlling interests	**60,981**	62,965
TOTAL EQUITY	**16,189,061**	16,171,747

Approved and authorised for issue by the board of directors on 15 August 2012.

Yu Zhangli
Director

Zhu Yiliang
Director

The notes on pages 19 to 30 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2012 – 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	Exchange reserve $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2011		181,116	7,697,617	3,887	(112,202)	602,517	928,706	5,135,068	14,436,709	45,789	14,482,498
Profit for the period		–	–	–	–	–	–	1,608,850	1,608,850	6,167	1,615,017
Total other comprehensive income for the period		–	–	–	–	–	230,206	–	230,206	835	231,041
Total comprehensive income for the period		–	–	–	–	–	230,206	1,608,850	1,839,056	7,002	1,846,058
Shares issued under share option scheme	17(c)	326	28,749	–	–	–	–	(4,755)	24,320	–	24,320
Share-based payments		–	–	–	–	–	–	177	177	–	177
Dividends approved during the period	17(b)	–	–	–	–	–	–	(362,883)	(362,883)	–	(362,883)
At 30 June 2011		181,442	7,726,366	3,887	(112,202)	602,517	1,158,912	6,376,457	15,937,379	52,791	15,990,170
At 1 January 2012		**182,276**	**7,400,418**	**3,887**	**(112,202)**	**770,814**	**1,480,091**	**6,383,498**	**16,108,782**	**62,965**	**16,171,747**
Profit for the period		**-**	**-**	**-**	**-**	**-**	**-**	**107,011**	**107,011**	**(1,619)**	**105,392**
Total other comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**(87,713)**	**-**	**(87,713)**	**(365)**	**(88,078)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**(87,713)**	**107,011**	**19,298**	**(1,984)**	**17,314**
At 30 June 2012		**182,276**	**7,400,418**	**3,887**	**(112,202)**	**770,814**	**1,392,378**	**6,490,509**	**16,128,080**	**60,981**	**16,189,061**

The notes on pages 19 to 30 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2012	2011
	Note	**$'000**	$'000
Cash (used in)/generated from operations		**(910,235)**	2,282,314
Tax paid		**(32,189)**	(100,198)
Net cash (used in)/generated from operating activities		**(942,424)**	2,182,116
Net cash used in investing activities		**(1,435,331)**	(1,622,233)
Net cash generated from financing activities		**605,219**	786,662
Net (decrease)/increase in cash and cash equivalents		**(1,772,536)**	1,346,545
Cash and cash equivalents at 1 January	15	**5,068,812**	5,972,385
Effect of exchange rate fluctuation on cash held		**(24,884)**	107,618
Cash and cash equivalents at 30 June	15	**3,271,392**	7,426,548

The notes on pages 19 to 30 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1 Reporting Entity

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

The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2012 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in an associate and a jointly controlled entity.

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 15 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 2011 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 12.

The financial information relating to the financial year ended 31 December 2011 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 2011 are available from the Company's principal place of business in Hong Kong. The auditors have expressed an unqualified opinion on those financial statements in their report dated 9 March 2012.

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

3 Changes in Accounting Policies

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, Amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*, is relevant to the Group's financial statements.

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

Amendments to IFRS 7, Financial instruments: disclosures

The amendments to IFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the balance sheet date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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 periods ended 30 June 2012 and 2011 is set out below.

	Chilled and frozen meat Six months ended 30 June		**Processed meat products Six months ended 30 June**		**Total Six months ended 30 June**	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000
External revenue	**11,233,116**	14,276,531	**1,296,076**	2,179,547	**12,529,192**	16,456,078
Inter-segment revenue	**270,455**	648,904	**4,009**	–	**274,464**	648,904
Reportable segment revenue	**11,503,571**	14,925,435	**1,300,085**	2,179,547	**12,803,656**	17,104,982
Depreciation and amortisation	**(207,655)**	(151,726)	**(42,982)**	(35,404)	**(250,637)**	(187,130)
Government subsidies	**683,979**	324,840	**69,554**	33,136	**753,533**	357,976
Reportable segment profit/(loss)	**250,180**	1,359,425	**(30,990)**	384,795	**219,190**	1,744,220
Income tax expenses	**(4,744)**	(3,456)	**(11,313)**	(102,413)	**(16,057)**	(105,869)

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

4 Turnover and Segment Information (continued)

(b) Reconciliation of reportable segment revenue and profit

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Revenue		
Total revenue from reportable segments	**12,803,656**	17,104,982
Elimination of inter-segment revenue	**(274,464)**	(648,904)
Consolidated revenue	**12,529,192**	16,456,078
Profit		
Reportable segment profit	**219,190**	1,744,220
Elimination of inter-segment profits	**11,461**	4,488
Reportable segment profit derived from Group's external customers	**230,651**	1,748,708
Share of losses of associates	**(288)**	(274)
Share of loss of a jointly controlled entity	**(423)**	(168)
Net finance costs	**(76,590)**	(12,379)
Income tax expense	**(16,553)**	(106,024)
Unallocated head office and corporate expenses	**(31,405)**	(14,846)
Consolidated profit for the period	**105,392**	1,615,017

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 Other Operating Income

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Government subsidies	**753,533**	357,976
Rental income	**11,249**	11,294
Sales of scrap	**3,399**	3,373
Sundry income	**16,429**	14,798
	784,610	387,441

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

7 Profit before Income Tax

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

	Six months ended 30 June	
	2012	2011
	$'000	$'000
(a) Net finance costs		
Interest on bank and other loans wholly repayable within five years	**184,672**	99,552
Interest on bank loans not wholly repayable within five years	**38,959**	–
Interest on lease obligations	**3,263**	3,175
Less: Interest expense capitalised into property, plant and equipment under development	**(139,575)**	(11,413)
	87,319	91,314
Bank charges	**1,929**	3,828
Net foreign exchange loss/(gain)	**15,433**	(37,521)
Interest income from bank deposits	**(22,245)**	(20,556)
Investment income from available-for-sale financial assets	**(10,332)**	(11,589)
Change of fair value of financial derivatives	**4,486**	(13,097)
	76,590	12,379
(b) Other items		
Provision for impairment loss on		
– trade and other receivables	**3,374**	461
– available-for-sale financial assets	**–**	1,193
Amortisation of lease prepayments	**36,835**	24,795
Depreciation	**219,923**	163,037
Operating lease charges in respect of land use rights and premises		
– minimum lease payments	**7,166**	11,850
– contingent rent	**1,676**	4,051
Loss on disposals of property, plant and equipment	**209**	596

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

8 Income Tax Expense

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Current tax expense	**11,937**	84,902
Deferred tax expense	**4,616**	21,122
	16,553	106,024

(a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "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 2012 and 2011.

(c) Pursuant to the income tax rules and regulations of the People's Republic of China (the "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 2012 and 2011, 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 2012 and 2011.

(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 2012, temporary differences relating to the undistributed profits of subsidiaries amounted to $7,096,877,000 (31 December 2011: $6,399,094,000). Deferred tax liabilities of $199,532,000 (31 December 2011: $164,643,000) in respect of the undistributed profits of $3,990,649,000 (31 December 2011: $3,292,866,000) were not recognised as at 30 June 2012 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.

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

8 Income Tax Expense (continued)

(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 2012 was 13.6% (six months ended 30 June 2011: 6.2%).

9 Other Comprehensive Income

The components of other comprehensive income do not have any significant tax effect for the six months ended 30 June 2012 and 2011.

10 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 $107,011,000 (six months ended 30 June 2011: $1,608,850,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2011: 1,813,883,000).

(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 $107,011,000 (six months ended 30 June 2011: $1,608,850,000) and the diluted weighted average number of ordinary shares of 1,824,875,000 (six months ended 30 June 2011: 1,827,133,000) after adjusting the effect of deemed issue of shares under the Company's share option scheme.

The share options granted during the year ended 31 December 2011 were not included in the calculation of diluted earnings per share because they are anti-dilutive.

11 Property, Plant and Equipment

The additions and disposals of items of property, plant and equipment during the six months ended 30 June 2012 are as follows:

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Cost of additions	**1,149,894**	1,159,580
Cost of disposals	**(4,103)**	(6,736)

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

12 Inventories

	30 June 2012 $'000	31 December 2011 $'000
Raw materials	**279,273**	337,951
Work in progress	**65,013**	185,212
Finished goods	**1,618,399**	930,252
	1,962,685	1,453,415

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended 30 June	
	2012 $'000	2011 $'000
Carrying amount of inventories sold	**12,209,512**	14,390,032
Write down of inventories	**51,416**	–
	12,260,928	14,390,032

13 Other Investments

	30 June 2012 $'000	31 December 2011 $'000
Available-for-sale financial assets, unlisted	**220,805**	–

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

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 the balance sheet date are analysed as follows:

	30 June 2012 $'000	31 December 2011 $'000
Trade receivables		
– Within 30 days	**299,106**	381,261
– 31 days to 90 days	**170,512**	123,795
– 91 days to 180 days	**14,572**	26,584
– Over 180 days	**22,628**	20,928
	506,818	552,568
Less: Provision for impairment of trade receivables	**(10,371)**	(7,049)
Total trade receivables, net of impairment loss	**496,447**	545,519
Bills receivable	**43,675**	12,018
Value-added tax ("VAT") recoverable	**1,122,051**	764,675
Deposits and prepayments	**100,059**	89,320
Others	**43,078**	54,573
	1,805,310	1,466,105

15 Cash and Cash Equivalents

	30 June 2012 $'000	31 December 2011 $'000
Cash at bank and in hand	**3,271,392**	5,068,812

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

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 the balance sheet date are analysed as follows:

	30 June 2012 $'000	31 December 2011 $'000
Trade payables		
– Within 30 days	**878,724**	774,476
– 31 days to 90 days	**95,751**	91,683
– 91 days to 180 days	**41,165**	21,487
– Over 180 days	**48,512**	14,448
Total trade payables	**1,064,152**	902,094
Bills payable	**2,895**	6,228
Receipts in advance	**203,004**	263,242
Deposit from customers	**139,945**	94,470
Salary and welfare payables	**122,588**	154,039
VAT payable	**4,850**	1,029
Payables for purchase of property, plant and equipment	**664,240**	731,836
Derivative financial instruments	**5,325**	1,235
Other payables and accruals	**448,407**	860,356
	2,655,406	3,014,529

17 Capital, Reserves and Dividends

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

	Six months ended 30 June	
	2012 $'000	2011 $'000
Interim dividend proposed after the balance sheet date of $Nil (six months ended 30 June 2011: $0.22) per share	**–**	399,172

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

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

17 Capital, Reserves and Dividends (continued)

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

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Final dividend in respect of the financial year ended 31 December 2011, approved and paid during the following interim period, of $Nil (year ended 31 December 2010: $0.20) per share	**–**	362,883

(c) Shares issued under share option scheme

During the six months ended 30 June 2011, options were exercised to subscribe for 3,260,000 ordinary shares in the Company at an aggregate consideration of $24,320,000 of which $326,000 was credited to share capital and the remaining balance of $23,994,000 was credited to the share premium account. The fair value of the share options recognised in the retained earnings amounting to $4,755,000 has been transferred to the share premium account.

No options were exercised while 20,850,000 options were lapsed during the period ended 30 June 2012.

18 Capital Commitments Outstanding not Provided for in the Interim Financial Report

	30 June	31 December
	2012	2011
	$'000	$'000
Contracted for	**5,274,222**	6,607,305
Authorised but not contracted for	**–**	–
	5,274,222	6,607,305

As at 31 December 2011, the jointly controlled entity was committed to incur capital expenditures of $5,747,000, of which the capital expenditures shared by the Group amounted to $2,816,000. The jointly controlled entity had no outstanding capital commitment as at 30 June 2012.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

19 Related Party Transactions

During the six months ended 30 June 2012 and 2011, in addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group had the following material related party transactions:

(a) Significant related party transactions

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

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Sales of raw materials to related companies (note (i))	**1,015**	529
Purchases of raw materials from related companies (note (i))	**49,586**	101,045
Purchases of finished goods from an associate	**–**	402

Note:

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

(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 2012. The rental paid or payable to the related parties amounted to $3,444,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: $3,048,000).

(iii) During the six months ended 30 June 2012, certain related parties made available their properties at a carrying value of $150,566,000 as at 30 June 2012 to the Group (31 December 2011: $153,920,000). No rental is paid or payable by any of the group companies.

(iv) The Group shared office premises with a related company (note 19(a)(i)(i)) during the six months ended 30 June 2011. The rental paid or payable to that related company and certain expenses borne by the Company amounted to $1,156,000 for the six months ended 30 June 2011.

(v) During the six months ended 30 June 2012 and 2011, a related company (note 19(a)(i)(i)) 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.

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars)

19 Related Party Transactions (continued)

(b) Amounts due from related companies

	30 June 2012 $'000	31 December 2011 $'000
Non-trade receivables due from related companies (note 19(a)(i)(i))	**1,172**	321

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

(c) Amounts due to related companies

	30 June 2012 $'000	31 December 2011 $'000
Trade payables due to related companies (note 19(a)(i)(i))	**9,407**	7,676

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	
	2012 $'000	2011 $'000
Salaries and other emoluments	**4,831**	6,597
Contributions to retirement benefit schemes	**99**	150
	4,930	6,747