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

Building our Future
on Solid Foundation

Interim Report 2013

Contents

Corporate Information

Board of Directors

Executive Directors

Yu Zhangli *(Chairman)*
Li Shibao *(Chief Executive Officer)*
Feng Kuande
Ge Yuqi

Non-executive Directors

Wang Kaitian
Li Chenghua

Independent Non-executive Directors

Gao Hui
Qiao Jun
Chen Jianguo

Audit Committee

Gao Hui *(Chairman)*
Qiao Jun
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 China Limited
Agricultural Bank of China Limited
Bank of Communications Co., Ltd.
Industrial and Commercial Bank of China Limited
China Merchants 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
26 Burnaby Street
Hamilton HM 11
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 Fulbright 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 (and Outlook)

In the first half of 2013, China's national economy remained stable. According to the data published by the National Bureau of Statistics of China, gross domestic product (GDP) for the first half of 2013 was Renminbi ("RMB") 24,800.9 billion, representing an increase of 7.6% over the same period of 2012 based on comparable prices, indicating a slight slowdown in economic growth. After the Chinese New Year Festival, end-user consumption of meat products weakened, hog prices remained low and the development of China's hog slaughtering and meat products processing industry lagged behind expectations. In the face of numerous unfavourable factors and severe challenges, China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively referred to as the "Group") made substantial efforts to reinforce brand building in order to strengthen the popularity of the "YURUN" brand, established dedicated teams to improve communication channels with the public, consistently implemented essential measures to prevent food safety risks, proactively expanded sales channels through restaurant chains and exclusive shops, developed new products and strengthened product diversification, as well as adoption of prudent investment strategies. The Company strived for a balance between opportunities arising from industry consolidation and stability of the Company's business development, with a view to lay a solid foundation for the Group's further development.

During the six months ended 30 June 2013 (the "Review Period"), due to slackened economic growth and slower-than-expected recovery in the consumer market, the domestic hog market remained sluggish. To maintain a stable market as well as to protect hog farmers' interests, the Central Government had promptly initiated regulatory plans to control cyclical fluctuations in hog price. In April 2013, the Ministry of Commerce collaborated with the National Development and Reform Commission, the Ministry of Finance and Agricultural Development Bank of China to initiate purchase of frozen pork as state reserve for the year which comprised three purchases from over 20 provinces in China at a price slightly higher than market prices. As a result of the combined favourable effects of government policy support and the Dragon Boat Festival, hog market prices witnessed a clear increase in mid to late May 2013, enhancing the incentive of hog farmers to increase farm sizes, which ensured hog supply and the overall stable and orderly development of the industry in the future.

In addition, the "2013 Key Work Schedule for Food Safety" (《2013年食品安全重點工作安排》) was issued by the General Office of the State Council in April 2013, requiring formulation of and amendment to laws and regulations such as Food Safety Law, and specifying issues on application of law, such as determination of behavior, jurisdiction and specifications of evidence in the investigations of criminal cases relating to food safety. In particular, the "2013 Key Work Schedule for Food Safety" puts forward specific and stringent entry standards for the slaughtering industry, which strengthened the adoption and management of qualifications and licences of slaughtering enterprises at fixed locations, so as to further enhance food safety protection by practically improving the hygiene in food market and consumption environment and effectively preventing systemic and regional food safety risks.

The Board believes that, under the favourable environment created by the government's promotion of food safety, and leveraging on the Group's leading position in the food industry development and market competition as well as its core competitive strengths derived from resources optimisation, strategic layout, industry operation and brand marketing, Yurun Food has the confidence and ability to overcome various difficulties and challenges, continually consolidate its established competitive advantages and gradually recover earnings growth, in order to promote the Group's stable development.

Business Review

During the Review Period, due to slackened domestic economic growth, weak and sluggish end-user consumption of meat products, as well as increasingly intense market competition and increasing production costs (including labour and transportation costs), the Group encountered severe challenges in business development. Against the difficult business environment, Yurun Food applied various proactive and prudent measures, strengthened the Group's brand building, improved consumer communication channels, adopted stringent measures to prevent food safety risks, made substantial efforts to develop sales channels through restaurant chains and exclusive shops, explored new products and adhered to product diversification and prudent investment strategies, so as to balance industry consolidation and the Group's steady development.

Product Quality and R&D

It has always been Yurun Food's aim to produce products of the highest quality to satisfy increasing market demand for quality meat products. During the Review Period, under the leadership of the Group's management and adhering to the operation philosophy of "you trust because we care" and stringent quality control, Yurun Food's low temperature meat products ("LTMP") were awarded the "2012 Nanjing Famous-Brand Products", representing social recognition and the good reputation of its established brand image for quality meat product. The Group will continue to focus on the development of products which are well received by consumers, so as to maintain its competitive advantages and consolidate its market share in the industry.

Sales and Distribution

Chilled pork and LTMP, which are the Group's products with higher added value, continued to play an important role in the Group's overall business during the Review Period. In the first half of 2013, sales of chilled pork of the Group was HK$7.841 billion (1H2012: HK$9.951 billion), representing a decrease of 21.2% over the same period last year, accounting for approximately 74% of the total turnover of the Group prior to inter-segment eliminations (1H2012: 78%) and approximately 86% of the total turnover of the upstream slaughtering segment (1H2012: 86%). Sales of LTMP was HK$1.326 billion (1H2012: HK$1.169 billion), representing an increase of 13.4% over the same period last year, accounting for approximately 13% of the total turnover of the Group prior to inter-segment eliminations (1H2012: 9%) and approximately 90% of the total turnover of the downstream processed meat segment (1H2012: 90%).

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, and adhering to the principle of strict control of investment costs, the Group prudently adjusted its expansion pace in accordance with market changes and at the same time pursued its development plan for recent years steadily and progressively.

In respect to its upstream slaughtering segment, against the background of the management in adjusting the expansion pace, the Group had no new plant put into production for the six months ended 30 June 2013 and the Group's upstream slaughtering capacity remained unchanged at 56.65 million heads per year as compared to that as at 31 December 2012.

As of 30 June 2013, the Group's production capacity of downstream processed meat segment reached approximately 308,000 tons per year, representing a slight increase of approximately 600 tons compared to that as at 31 December 2012.

Financial Review

The Group recorded a turnover of HK$10.303 billion in the first half of 2013, representing a decrease of 17.8% as compared to HK$12.529 billion in the same period last year. The Group recorded a profit attributable to equity holders of HK$17.77 million (1H2012: HK$107 million) in the first half of 2013, representing a decrease of 83.4% from the same period last year. Core results, being profit attributable to equity holders excluding government subsidies, gain on disposal of a subsidiary and net foreign exchange gain/loss of the Group, recorded a loss of HK$512 million (1H2012: loss of HK$631 million), representing a reduction in such loss of approximately 19% over the same period last year. Diluted earnings per share were HK$0.010, representing a decrease of 83.1% from HK$0.059 in the same period last year.

Turnover

Chilled and Frozen Pork

During the Review Period, the slaughtering volume of the Group decreased by approximately 23% over the same period last year.

In the first half of 2013, total sales from upstream business (before inter-segment eliminations) decreased by 20.5% to HK$9.145 billion (1H2012: HK$11.504 billion) as compared to the same period last year, out of which, sales of chilled pork decreased by 21.2% to HK$7.841 billion (1H2012: HK$9.951 billion), accounting for approximately 74% (1H2012: 78%) and approximately 86% (1H2012: 86%) of the total turnover (before inter-segment eliminations) of the Group and the total turnover of the upstream business of the Group respectively. Sales of frozen pork decreased by 16.0% to HK$1.304 billion (1H2012: HK$1.553 billion), accounting for approximately 14% of the total turnover of the upstream business (1H2012: 14%).

Processed Meat Products

During the Review Period, sales of processed meat products (before inter-segment eliminations) of the Group was HK$1.481 billion (1H2012: HK$1.300 billion), representing an increase of 13.9% over the same period last year.

Management Discussion and Analysis

Specifically, turnover of LTMP was HK$1.326 billion, representing an increase of 13.4% as compared to HK$1.169 billion in the same period last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 90% (1H2012: 90%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$155 million (1H2012: HK$131 million), accounting for approximately 10% (1H2012: 10%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 56.2% from HK$268 million in the first half of 2012 to HK$419 million during the Review Period. Overall gross profit margin increased by 2.0 percentage points to 4.1% from 2.1% in the same period last year. The increase in gross profit margin was in line with the gradual recovery of the business and increase in bargaining power of the Group.

With respect to the upstream business, gross profit margin of chilled pork and frozen pork was 3.8% and -10.5% respectively (1H2012: 2.4% and -11.1% respectively). The overall gross profit margin of the upstream segment was 1.7%, representing an increase of 1.1 percentage points as compared to 0.6% over the same period last year.

With respect to downstream processed meat products, gross profit margin of LTMP was 19.3%, representing an increase of 3.7 percentage points as compared to 15.6% of the same period last year. Gross profit margin of HTMP was 15.2%, representing an increase of 4.7 percentage points as compared to the same period last year. Overall gross profit margin of the downstream segment was 18.8%, representing an increase of 3.7 percentage points as compared to 15.1% of the same period last year.

Other Net Income

Other net income mainly included government subsidies, gain on disposal of a subsidiary and cold storage rental income. During the Review Period, other net income of the Group was HK$541 million, representing a decrease of HK$244 million as compared to HK$785 million in the same period last year. Such decrease was mainly due to the decrease in government subsidies by 60.4% from HK$754 million in the first half of 2012 to HK$298 million during the Review Period.

In June 2013, the Group disposed of its entire interest in its wholly-owned subsidiary, Changchun Yurun Food Company Limited to independent third parties and recorded a gain of approximately HK$222 million.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK$836 million, representing a decrease of 2.1% as compared to HK$854 million in the same period last year mainly due to a significant decrease in advertising expenses. Operating expenses represented 8.1% of the Group's turnover, an increase of 1.3 percentage points as compared to 6.8% of the same period last year.

Operating Profit

For the first half of 2013, operating profit of the Group was HK$124 million, representing a decrease of 37.7% from HK$199 million over the same period last year.

Net Finance Costs

During the Review Period, net finance costs of the Group were HK$82.39 million as compared with HK$76.59 million in the same period last year. Net finance costs increased compared with the same period last year as borrowing interests rose due to increased bank loans and other borrowings during the Review Period.

Income Tax

The income tax for the six months ended 30 June 2013 was HK$23.90 million, representing an increase of 44.4% as compared to HK$16.55 million of the same period last year. Effective tax rate for the Review Period was 60.4%, representing an increase of 46.8 percentage points as compared to 13.6% in the same period last year. The increase was mainly attributable to the corporate income tax which arose from the gain on disposal of a subsidiary during the Review Period.

Profit Attributable to Equity Holders of the Company

Taking into account all of the above factors, profit attributable to equity holders of the Company decreased by 83.4% to approximately HK$17.77 million in the first half of 2013 as compared to HK$107 million in the first half of 2012. Net profit margin for the Review Period was 0.2%, representing a decrease of 0.7 percentage point as compared with 0.9% in the same period last year.

Financial Resources

During the Review Period, the second tranche of domestic medium term notes ("MTN") with an aggregate principal amount of RMB1 billion was issued in the People's Republic of China (the "PRC") by Nanjing Yurun Food Co., Ltd., a wholly-owned subsidiary of the Company. The second tranche of the MTN is also unsecured with a term of 3 years (same as the first tranche issued last year) and bears a fixed interest rate of 5.27% per annum. This interest rate is lower than the 5.49% of the first tranche and more favourable compared with most of the bank loans of the Group. The Group issued the MTN at a lower interest rate to optimise its debt structure. The net proceeds from the MTN have been used for repayment of short-term loans with higher interest rates and as general working capital of the Group. As at 30 June 2013, the Group's cash balance together with time deposits and pledged deposits were HK$3.458 billion, representing an increase of HK$621 million as compared to HK$2.837 billion as at 31 December 2012.

As at 30 June 2013, the Group had outstanding borrowings of HK$8.467 billion (including bank loans and MTN), representing an increase of HK$1.368 billion from HK$7.099 billion as at 31 December 2012, out of which, HK$3.604 billion (31 December 2012: HK$3.618 billion) of our borrowings was classified as bank loan repayable within one year and all of our borrowings were denominated in RMB, which is consistent with our borrowings as at 31 December 2012. The fixed rate debt ratio of the Group increased to 63.9% as at 30 June 2013 (31 December 2012: 53.9%). Taking into account the funds used for daily operations 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 unutilised credit facilities, the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group significantly decreased by 44.9% to HK$660 million during the Review Period as compared to HK$1.197 billion of the same period last year.

Assets and Liabilities

As at 30 June 2013, the total assets and total liabilities of the Group were HK$27.073 billion (31 December 2012: HK$25.648 billion) and HK$11.245 billion (31 December 2012: HK$10.101 billion) respectively, representing an increase of HK$1.425 billion and HK$1.144 billion as compared to total assets and liabilities as at 31 December 2012 respectively.

As at 30 June 2013, property, plant and equipment of the Group amounted to HK$15.075 billion (31 December 2012: HK$14.518 billion), representing an increase of HK$557 million as compared to 31 December 2012.

Lease prepayment of the Group as at 30 June 2013 amounted to HK$3.819 billion (31 December 2012: HK$3.842 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 2013, the balance was HK$403 million (31 December 2012: HK$401 million). The assets have not started to depreciate nor amortise yet.

As at 30 June 2013, equity attributable to equity holders of the Company was HK$15.772 billion in total, representing an increase of HK$283 million as compared to HK$15.489 billion as at 31 December 2012.

As at 30 June 2013, the gearing ratio (total debt represented by the sum of bank loans, the MTN and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 35.4%, representing an increase of 3.4 percentage points as compared to 32.0% as at 31 December 2012. As at 30 June 2013, after excluding cash, time deposits and pledged deposits, the gearing ratio of the Group was 21.2% (31 December 2012: 19.5%).

Management Discussion and Analysis

Charges on Assets

As at 30 June 2013, certain properties and construction in progress of the Group with a carrying amount of HK$539 million, lease prepayments of the Group with a carrying amount of HK$493 million and bills receivable with a carrying amount of HK$5.02 million (31 December 2012: HK$418 million, HK$490 million and HK$Nil respectively) were pledged against certain bank loans with a total amount of HK$2.085 billion (31 December 2012: HK$2.162 billion).

Secured loans of the Group as at 30 June 2013 amounted to HK$628 million (31 December 2012: HK$5.67 million) which were secured by pledged deposits denominated in RMB amounting to HK$663 million (31 December 2012: HK$6.04 million).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, Future Plans for Material Investment or Acquisition of Capital Assets

The Group did not hold any significant investment nor made any material acquisition or disposal of subsidiaries or associated companies during the Review Period. As at the date of this report, the Group has no plan to make any significant investment in or acquisition of capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 30 June 2013.

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, Euros or Hong Kong dollars, the Group's transactions are mainly settled in RMB. The functional currency of operating subsidiaries of the Group in the PRC is RMB, which is not freely convertible into foreign currencies. 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 2013, the Group had approximately 23,000 (31 December 2012: 26,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK$478 million, accounting for 4.6% of the turnover of the Group (1H2012: HK$468 million, accounting for 3.7% of the turnover of the Group).

The Group offered its employees competitive remuneration and other employee benefits, including contributions to social security schemes such as retirement benefits scheme. In line with the 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 2013 (2012: Nil).

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

As at 30 June 2013, 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) (the "SFO")), as recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Interest in shares and underlying shares of the Company

Name of Directors	Capacity	Interest in ordinary shares	Interest in underlying shares [2]	Total	Approximate percentage of interest
Yu Zhangli	Beneficial owner	89,000	13,925,000	14,014,000	0.77%
Li Shibao [1]	Beneficial owner	89,000	7,750,000	7,839,000	0.43%
Feng Kuande	Beneficial owner	–	8,500,000	8,500,000	0.47%
Ge Yuqi	Beneficial owner	–	9,000,000	9,000,000	0.49%

Notes:

(1) Li Shibao was appointed as the Chief Executive Officer of the Company on 7 July 2012 and an executive Director of the Company on 23 March 2013.

(2) The interests in underlying shares represent the interests in the share options granted on 3 September 2011 and 25 March 2013 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 2013, none of the Directors and/or 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 2013, 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 Limited	Long position	470,699,900[(1)]	25.82%
Zhu Yicai	Long position	470,699,900[(1)]	25.82%
Wu Xueqin	Long position	470,699,900[(1)]	25.82%

Note:

(1) These shares represent the shares of the Company held by Willie Holdings Limited ("Willie Holdings") as beneficial owner. Willie Holdings is owned as to 93.41% by Zhu Yicai ("Mr. Zhu"), the former executive Director and Chairman of the Company, and as to 6.59% by Wu Xueqin ("Ms. Wu"), the spouse of Mr. Zhu. 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. Ms. Wu, being the spouse of Mr. Zhu, is also deemed to be interested in these shares by virtue of Part XV of the SFO.

Save as disclosed above, as at 30 June 2013, 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. Pursuant to the Share Option Scheme, the initial maximum number of ordinary shares of nominal value of HK$0.10 each in the capital of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 139,908,380 shares (the "Scheme Mandate Limit"), representing 10% of the total number of issued shares on 3 October 2005, which may be refreshed pursuant to the terms of the Share Option Scheme. At the annual general meeting of the Company (the "AGM") held on 21 May 2013, the shareholders of the Company had approved the refreshment of the Scheme Mandate Limit in accordance with the Share Option Scheme and the Listing Rules, thereby allowing the Company to grant further options for subscription of up to a total of 182,275,565 shares, representing 10% of the 1,822,755,650 shares in issue as at the date of the AGM.

Other Information

Details of the movements of the share options under the Share Option Scheme during the Review Period are shown below:

Name or category of participant	As at 1 January 2013	Granted during the Review Period[1]	Exercised during the Review Period	Lapsed during the Review Period[3]	As at 30 June 2013	Exercise price per share[6] HK$	Date of grant (DD.MM.YYYY)	Option period[2] & [3] (DD.MM.YYYY)
	Number of shares which may be issued pursuant to the share options							
Directors								
Yu Zhangli	5,887,500	–	–	(1,962,500)	3,925,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	10,000,000	–	–	10,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	5,887,500	10,000,000	–	(1,962,500)	13,925,000			
Li Shibao (appointed on 23 March 2013)	375,000	–	–	(125,000)	250,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	7,500,000	–	–	7,500,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	375,000	7,500,000	–	(125,000)	7,750,000			
Feng Kuande	5,250,000	–	–	(1,750,000)	3,500,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	5,000,000	–	–	5,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	5,250,000	5,000,000	–	(1,750,000)	8,500,000			
Ge Yuqi	6,000,000	–	–	(2,000,000)	4,000,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	5,000,000	–	–	5,000,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	6,000,000	5,000,000	–	(2,000,000)	9,000,000			
Subtotal	17,512,500[4]	27,500,000	–	(5,837,500)	39,175,000[4]			
Other employees (including ex-employees)								
In aggregate	7,634,000	–	–	–	7,634,000	7.46	10.11.2006	10.11.2006 – 09.11.2016
	45,037,500[5]	–	–	(15,012,500)	30,025,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	–	32,100,000	–	–	32,100,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	–	105,500,000	–	–	105,500,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	52,671,500	137,600,000	–	(15,012,500)	175,259,000			
Total	70,184,000	165,100,000	–	(20,850,000)	214,434,000			

Notes:

(1) The fair value of the share options granted during the six months ended 30 June 2013 was estimated to be approximately HK$142,708,000 and HK$248,106,000 respectively at each of the grant dates (25 March 2013 and 14 June 2013) using the binomial model. The accounting policy adopted in relation to the said share options is the same as that adopted for the year ended 31 December 2012 and as set out in the 2012 annual financial statements.

Other Information

The fair value of the share options granted during the Review Period was estimated as at each of the grant dates (25 March 2013 and 14 June 2013) using the binomial model and the related measurement inputs and assumptions were as follows:

Date of grant	**25.03.2013**	**14.06.2013**
Share price at grant date	HK$5.03	HK$4.86
Exercise price per share	HK$5.142	HK$5.002
Expected volatility (expressed as weighted average volatility used in the modelling under the binomial model)	55.3%	55.4%
Option life (expressed as weighted average life used in the modelling under the binomial model)	10 years	10 years
Expected dividends	1%	1%
Risk-free interest rate (based on Exchange Fund Notes)	1.212%	1.605%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

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

(3) 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, 25 March 2013 and 14 June 2013 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 (for the share options granted on 3 September 2011) and 2013, 2014, 2015 and 2016 respectively (for the share options granted on 25 March 2013 and 14 June 2013). During the Review Period, the second tranche (25%) of the share options granted on 3 September 2011, which should have been vested after the publication of the annual results of the year 2012, had lapsed due to the Group's performance targets not having been achieved.

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

(5) Including 6,075,000 share options granted to Zhu Yiliang, who resigned as director of the Company on 23 March 2013.

(6) The closing price of the shares of the Company immediately before the date of grant (i.e. 9 November 2006, 2 September 2011, 22 March 2013 and 13 June 2013 respectively) were HK$7.58, HK$18.04, HK$5.17 and HK$4.83 respectively.

(7) 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.

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 of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2013 except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as Qiao Jun, an independent non-executive director, Wang Kaitian and Li Chenghua, the non-executive directors, and Yu Zhangli, the Chairman of the Board, were absent from the AGM held on 21 May 2013 due to overseas or other engagements.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. The Company, having made specific enquiries with all directors of the Company, confirms that the directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2013.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

Audit Committee

The audit committee of the Company has reviewed with the management, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including the review of the unaudited interim results of the Group for the six months ended 30 June 2013.

By Order of the Board
Yu Zhangli
Chairman

Hong Kong, 29 August 2013

Review Report

KPMG

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 32 which comprises the consolidated balance sheet of China Yurun Food Group Limited as of 30 June 2013 and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six month 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 2013 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

29 August 2013

Consolidated Income Statement

For the six months ended 30 June 2013 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2013** **$'000**	2012 $'000
Turnover	4	**10,302,738**	12,529,192
Cost of sales		**(9,883,696)**	(12,260,928)
Gross profit		**419,042**	268,264
Other net income	6	**541,137**	784,610
Distribution expenses		**(319,988)**	(370,101)
Administrative and other operating expenses		**(516,045)**	(483,527)
Results from operating activities		**124,146**	199,246
Finance income		**32,977**	32,577
Finance costs		**(115,363)**	(109,167)
Net finance costs	7(a)	**(82,386)**	(76,590)
Share of loss of an associate (net of income tax)		**(133)**	(288)
Share of loss of a joint venture (net of income tax)		**(2,085)**	(423)
Profit before income tax	7	**39,542**	121,945
Income tax expense	8	**(23,903)**	(16,553)
Profit for the period		**15,639**	105,392
Attributable to:			
Equity holders of the Company		**17,770**	107,011
Non-controlling interests		**(2,131)**	(1,619)
Profit for the period		**15,639**	105,392
Earnings per share			
Basic	10(a)	**$0.010**	$0.059
Diluted	10(b)	**$0.010**	$0.059

The notes on pages 19 to 32 form part of this interim financial report.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2013	2012
	Note	**$'000**	$'000
Profit for the period		**15,639**	105,392
Other comprehensive income for the period (after reclassification adjustments)	9		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**257,048**	(88,078)
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary		**(16,951)**	–
		240,097	(88,078)
Total comprehensive income for the period		**255,736**	17,314
Attributable to:			
Equity holders of the Company		**256,865**	19,298
Non-controlling interests		**(1,129)**	(1,984)
Total comprehensive income for the period		**255,736**	17,314

The notes on pages 19 to 32 form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2013 – unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2013 $'000	31 December 2012 $'000
Non-current assets			
Property, plant and equipment	11	**15,075,167**	14,518,311
Investment properties		**206,986**	207,026
Lease prepayments		**3,733,922**	3,758,763
Goodwill		**95,473**	93,801
Interest in an associate		**5,084**	5,127
Interest in a joint venture		**20,152**	21,865
Non-current prepayments		**403,162**	401,101
Deferred tax assets		**23,802**	24,691
		19,563,748	19,030,685
Current assets			
Inventories	12	**1,675,055**	1,665,230
Other investment	13	**68,416**	–
Current portion of lease prepayments		**84,854**	83,216
Trade and other receivables	14	**2,220,967**	2,027,420
Income tax recoverable		**2,030**	4,215
Pledged deposits		**668,766**	21,593
Time deposits		**3,449**	3,191
Cash and cash equivalents	15	**2,785,892**	2,812,267
		7,509,429	6,617,132
Current liabilities			
Bank loans		**3,604,319**	3,617,538
Finance lease liabilities		**612**	588
Trade and other payables	16	**2,400,359**	2,632,318
Income tax payable		**24,524**	19,463
		6,029,814	6,269,907
Net current assets		**1,479,615**	347,225
Total assets less current liabilities		**21,043,363**	19,377,910

Consolidated Balance Sheet

At 30 June 2013 – unaudited
(Expressed in Hong Kong dollars)

	30 June 2013 $'000	31 December 2012 $'000
Non-current liabilities		
Bank loans	**1,979,762**	1,878,564
Medium term notes	**2,882,535**	1,603,355
Finance lease liabilities	**179,703**	176,863
Deferred tax liabilities	**173,401**	172,681
	5,215,401	3,831,463
NET ASSETS	**15,827,962**	15,546,447
EQUITY		
Share capital	**182,276**	182,276
Reserves	**15,589,552**	15,306,908
Total equity attributable to equity holders of the Company	**15,771,828**	15,489,184
Non-controlling interests	**56,134**	57,263
TOTAL EQUITY	**15,827,962**	15,546,447

Approved and authorised for issue by the board of directors on 29 August 2013.

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 19 to 32 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013 – 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 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/(loss) 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
At 1 January 2013		**182,276**	**7,400,418**	**3,887**	**(112,202)**	**832,423**	**1,465,948**	**5,716,434**	**15,489,184**	**57,263**	**15,546,447**
Profit/(loss) for the period		**-**	**-**	**-**	**-**	**-**	**-**	**17,770**	**17,770**	**(2,131)**	**15,639**
Total other comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**239,095**	**-**	**239,095**	**1,002**	**240,097**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**239,095**	**17,770**	**256,865**	**(1,129)**	**255,736**
Disposal of a subsidiary	6	**-**	**-**	**-**	**-**	**(1,315)**	**-**	**1,315**	**-**	**-**	**-**
Equity settled share-based payment	17(b)	**-**	**-**	**-**	**-**	**-**	**-**	**25,779**	**25,779**	**-**	**25,779**
		-	**-**	**-**	**-**	**(1,315)**	**-**	**27,094**	**25,779**	**-**	**25,779**
At 30 June 2013		**182,276**	**7,400,418**	**3,887**	**(112,202)**	**831,108**	**1,705,043**	**5,761,298**	**15,771,828**	**56,134**	**15,827,962**

The notes on pages 19 to 32 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2013	2012
	Note	**$'000**	$'000
Cash used in operations		**(303,108)**	(910,235)
Tax paid		**(18,242)**	(32,189)
Net cash used in operating activities		**(321,350)**	(942,424)
Net cash used in investing activities		**(343,295)**	(1,435,331)
Net cash generated from financing activities		**586,241**	605,219
Net decrease in cash and cash equivalents		**(78,404)**	(1,772,536)
Cash and cash equivalents at 1 January	15	**2,812,267**	5,068,812
Effect of exchange rate fluctuation on cash held		**52,029**	(24,884)
Cash and cash equivalents at 30 June	15	**2,785,892**	3,271,392

The notes on pages 19 to 32 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 interim financial report of the Company as at and for the six months ended 30 June 2013 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in an associate and a joint venture.

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, promulgated by the International Accounting Standards Board ("IASB"). It was authorised for issue on 29 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 2012 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 2012 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 2012 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 22 March 2013.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

3 Changes in accounting policies

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

– IFRS 10, *Consolidated financial statements*

– IFRS 11, *Joint arrangements*

– IFRS 12, *Disclosure of interests in other entities*

– IFRS 13, *Fair value measurement*

– Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

– Amendments to IFRS 7, Financial instruments: *Disclosures – Offsetting financial assets and financial liabilities*

– *Annual Improvements to IFRSs 2009-2011 Cycle*

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

IFRS 10, Consolidated financial statements

As a result of the adoption of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 requires the Group to consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees at 1 January 2013. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 11, Joint arrangements

As a result of the adoption of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in its joint arrangements and has reclassified an investment from jointly controlled entity to joint venture and the investments in jointly controlled operations are reclassified as joint operations. Notwithstanding the reclassifications, the investment in joint venture continues to be accounted for using the equity method and the investments in joint operations are recognised on a line-by-line basis to the extent of the Group's interest in the joint operations. Accordingly, there has been no impact on the recognised assets, liabilities and comprehensive income of the Group.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

3 Changes in accounting policies (continued)

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in the interim financial report as a result of adopting IFRS 12.

IFRS 13, Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7, *Financial instruments: Disclosures*. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly. The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

Amendments to IFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

3 Changes in accounting policies (continued)

Annual Improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because segment assets and liabilities of the Group are not reported to the CODM regularly.

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 2013 and 2012 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**	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
External revenue	**8,825,483**	11,233,116	**1,477,255**	1,296,076	**10,302,738**	12,529,192
Inter-segment revenue	**319,974**	270,455	**4,054**	4,009	**324,028**	274,464
Reportable segment revenue	**9,145,457**	11,503,571	**1,481,309**	1,300,085	**10,626,766**	12,803,656
Depreciation and amortisation	**(248,795)**	(207,655)	**(50,111)**	(42,982)	**(298,906)**	(250,637)
Government subsidies	**270,740**	683,979	**27,320**	69,554	**298,060**	753,533
Reportable segment (loss)/profit	**(68,157)**	250,180	**25,111**	(30,990)	**(43,046)**	219,190
Income tax expenses	**(2,000)**	(4,744)	**(21,766)**	(11,313)	**(23,766)**	(16,057)

Segment assets and liabilities of the Group are not reported to the Group's most senior executive management regularly. As a result, reportable segment assets and liabilities have not been presented in this interim financial report.

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	
	2013	2012
	$'000	$'000
Revenue		
Total revenue from reportable segments	**10,626,766**	12,803,656
Elimination of inter-segment revenue	**(324,028)**	(274,464)
Consolidated revenue	**10,302,738**	12,529,192
Profit		
Reportable segment (loss)/profit	**(43,046)**	219,190
Elimination of inter-segment profits	**(9,803)**	11,461
Reportable segment (loss)/profit derived from Group's external customers	**(52,849)**	230,651
Share of loss of an associate	**(133)**	(288)
Share of loss of a joint venture	**(2,085)**	(423)
Gain on disposal of a subsidiary	**222,191**	–
Net finance costs	**(82,386)**	(76,590)
Income tax expense	**(23,903)**	(16,553)
Unallocated head office and corporate expenses	**(45,196)**	(31,405)
Consolidated profit for the period	**15,639**	105,392

5 Seasonality of operations

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

6 Other net income

	Six months ended 30 June	
	2013	2012
	$'000	$'000
Government subsidies	**298,060**	753,533
Gain on disposal of a subsidiary (note)	**222,191**	–
Rental income	**10,226**	11,249
Sales of scrap	**2,781**	3,399
Sundry income	**7,879**	16,429
	541,137	784,610

Note: On 24 June 2013, the Group disposed of its entire equity interest in its wholly owned subsidiary, Changchun Yurun Food Company Limited* (長春雨潤食品有限公司) to independent third parties, at a cash consideration of $357,373,000. A gain on disposal of a subsidiary amounted to $222,191,000 was recognised in profit or loss during the six months ended 30 June 2013 (six months ended 30 June 2012: $Nil).

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

7 Profit before income tax

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

(a) Net finance costs

	Six months ended 30 June	
	2013	2012
	$'000	$'000
Interest on bank loans and medium term notes wholly repayable within five years	**191,145**	184,672
Interest on bank loans not wholly repayable within five years	**32,125**	38,959
Interest on lease obligations	**3,288**	3,263
Less: Interest expense capitalised into property, plant and equipment under development	**(113,036)**	(139,575)
	113,522	87,319
Bank charges	**1,841**	1,929
Net foreign exchange (gain)/loss	**(9,302)**	15,433
Interest income from bank deposits	**(13,271)**	(22,245)
Investment income from available-for-sale financial assets	**(10,404)**	(10,332)
Change of fair value of financial derivatives	**–**	4,486
	82,386	76,590

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

7 Profit before income tax (continued)

(b) Other items

	Six months ended 30 June	
	2013	2012
	$'000	$'000
Provision for impairment loss on trade and other receivables	**4,114**	3,374
Amortisation of lease prepayments	**42,057**	36,835
Depreciation	**264,723**	219,923

8 Income tax expense

	Six months ended 30 June	
	2013	2012
	$'000	$'000
Current tax expense	**24,999**	11,937
Deferred tax	**(1,096)**	4,616
	23,903	16,553

(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 2013 and 2012.

(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 2013 and 2012, except for the following:

(i) 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 2013 and 2012.

(ii) 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

8 Income tax expense (continued)

(d) 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.

(e) The Group's consolidated effective tax rate for the six months ended 30 June 2013 was 60.4% (six months ended 30 June 2012: 13.6%).

9 Other comprehensive income

The components of other comprehensive income do not have any tax effect for the six months ended 30 June 2013 and 2012.

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 $17,770,000 (six months ended 30 June 2012: $107,011,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2012: 1,822,756,000).

(b) Diluted earnings per share

Diluted earnings per share equal to basic earnings per share for the six months ended 30 June 2013 because all potential ordinary shares outstanding were anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity holders of the Company of $107,011,000 and the diluted weighted average number of ordinary shares of 1,824,875,000 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 2006 were included in the calculation of diluted earnings per share for the six months ended 30 June 2012 while the share options granted during the year ended 31 December 2011 were not included because they were anti-dilutive.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

11 Property, plant and equipment

The additions and disposals of items of property, plant and equipment during the six months ended 30 June 2013 are as follows:

	Six months ended 30 June	
	2013	2012
	$'000	$'000
Additions	**677,359**	1,149,894
Carrying value of assets disposed of through disposal of a subsidiary	**(108,072)**	–
Carrying value of other assets disposed of	**(4,488)**	(4,103)

12 Inventories

	30 June	31 December
	2013	2012
	$'000	$'000
Raw materials	**288,311**	321,155
Work in progress	**56,723**	129,885
Finished goods	**1,330,021**	1,214,190
	1,675,055	1,665,230

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	
	2013	2012
	$'000	$'000
Carrying amount of inventories sold	**9,838,569**	12,209,512
Write down of inventories	**45,127**	51,416
	9,883,696	12,260,928

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

13 Other investment

	30 June 2013 $'000	31 December 2012 $'000
Available-for-sale financial asset, unlisted	**68,416**	–

The directors considered that the available-for-sale financial asset does not have a quoted market price in an active market. However, in view of the short maturity, the directors are of the opinion that the fair value of the available-for-sale financial asset approximates its cost as at the balance sheet date.

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 2013 $'000	31 December 2012 $'000
Trade receivables		
– Within 30 days	**297,538**	283,162
– 31 days to 90 days	**143,113**	133,442
– 91 days to 180 days	**23,777**	12,793
– Over 180 days	**16,955**	23,949
	481,383	453,346
Less: Provision for impairment of trade receivables	**(14,687)**	(10,354)
Total trade receivables, net of impairment loss	**466,696**	442,992
Bills receivable	**31,634**	93,380
Value-added tax ("VAT") recoverable	**1,491,413**	1,309,869
Deposits and prepayments	**146,157**	105,186
Others	**85,067**	75,993
	2,220,967	2,027,420

All of the trade and other receivables are expected to be recovered within one year.

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(Expressed in Hong Kong dollars)

15 Cash and cash equivalents

	30 June 2013 $'000	31 December 2012 $'000
Cash at bank and in hand	**2,785,892**	2,812,267

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 2013 $'000	31 December 2012 $'000
Trade payables		
– Within 30 days	**576,337**	651,909
– 31 days to 90 days	**106,453**	91,053
– 91 days to 180 days	**45,042**	36,466
– Over 180 days	**66,838**	61,435
Total trade payables	**794,670**	840,863
Receipts in advance	**218,107**	253,326
Deposits from customers	**116,220**	116,429
Salary and welfare payables	**146,366**	158,774
VAT payable	**5,089**	2,253
Payables for acquisitions of property, plant and equipment	**486,105**	549,118
Other payables and accruals	**633,802**	711,555
	2,400,359	2,632,318

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

17 Capital, reserves and dividends

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

The board of directors did not recommend to declare an interim dividend for the six months ended 30 June 2013 and 2012.

(b) Equity settled share-based transactions

On 25 March 2013 and 14 June 2013, 59,600,000 share options and 105,500,000 share options were granted for $1 to qualified employees of the Group under the Company's employee share option scheme (no share options were granted during the six months ended 30 June 2012). Each option gives the holder the right to subscribe for one ordinary share of the Company. The options granted are subjected to a vesting scale in tranches of 25% each annum starting from 2014 after announcement of results for the previous year and achievement of performance-based vesting condition. The exercise prices are $5.142 and $5.002 respectively, being the weighted average closing prices of the Company's ordinary shares immediately before the grant.

No options were exercised while 20,850,000 (six months ended 30 June 2012: 20,850,000) options were lapsed during the six months ended 30 June 2013.

18 Fair value measurement of financial instruments

Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2013 and 31 December 2012.

19 Capital commitments outstanding not provided for in the interim financial report

	30 June 2013 $'000	31 December 2012 $'000
Contracted for	**5,156,023**	5,114,403

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

20 Related party transactions

During the six months ended 30 June 2013 and 2012, 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	
	2013	2012
	$'000	$'000
Sales of raw materials to related companies (note (i))	**1,801**	1,015
Sales of raw materials to a joint venture	**10,128**	–
Sales of finished goods to related companies (note (i))	**373**	–
Purchases of raw materials from related companies (note (i))	**129,577**	49,586

Note (i): Mr. Zhu Yicai is the beneficial shareholder of the Company and also has beneficial interest in the related companies. Mr. Zhu was a director of the Company and resigned in July 2012.

(ii) The Group leased certain property, plant and equipment and land use rights owned by the related parties (note 20(a)(i)(i)) during the six months ended 30 June 2013. The rental paid or payable to the related parties amounted to $3,483,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: $3,444,000).

(iii) During the six months ended 30 June 2013, certain related parties (note 20(a)(i)(i)) made available their properties at a carrying value of $148,274,000 as at 30 June 2013 to the Group (31 December 2012: $148,530,000). No rental is paid or payable by any of the Group companies.

(iv) During the six months ended 30 June 2013 and 2012, a related company (note 20(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)

20 Related party transactions (continued)

(b) Amounts due from related companies

	30 June 2013 $'000	31 December 2012 $'000
Other receivables due from a joint venture	**129**	–
Other receivables due from related companies (note 20(a)(i)(i))	**1,932**	1,268

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 2013 $'000	31 December 2012 $'000
Receipt in advance from a joint venture	**–**	463
Trade payables due to related companies (note 20(a)(i)(i))	**22,177**	8,672

Amounts due to a joint venture and 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	
	2013 $'000	2012 $'000
Salaries and other emoluments	**3,283**	4,831
Contributions to retirement benefit schemes	**86**	99
Share-based payment	**4,734**	–
	8,103	4,930