



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



*Striving for
Our Promising Future*

Interim Report 2014





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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 (resignation with effect from 23 August 2014)

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

Authorised 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

Room 4006, 40th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Advisors

As to Hong Kong Law

Norton Rose Fulbright Hong Kong
lu, 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)

During the six months ended 30 June 2014 (the “Review Period”), China’s national economy slowed down but remained stable. According to the data published by the National Bureau of Statistics of China, China’s gross domestic product for the first half of 2014 was Renminbi (“RMB”) 26,904.4 billion, representing an increase of 7.4% over the same period of 2013 based on comparable prices.

During the Review Period, the domestic hog market remained sluggish and hog price dropped rapidly since end of last year. After the rapid rebound of hog price during the peak season in May of this year, the demand for pork entered the usual slack season in June. The average hog price during the Review Period therefore decreased significantly compared to same period last year. To maintain a stable market as well as to protect hog farmers’ interests, the Central Government conducted the second purchase of frozen pork as state reserve in May this year. Such purchase enhanced the incentive of hog farmers and breeding farms to increase farm sizes, which ensured hog supply and overall stable and orderly development of the industry in the future.

China Yurun Food Group Limited (the “Company” or “Yurun Food”) and its subsidiaries (collectively, the “Group”) adjusted the pace of expansion in recent years and adopted more prudent investment strategies. Under the impact of numerous unfavourable factors and challenges, the Group managed to maintain steady business growth and laid a foundation for future development of the Group.

Business Review

During the Review Period, the slackened domestic economic growth, increasingly competitive market environment and increasing production costs brought certain challenges to the business development of the Group. The rapid increase in production capacity of the Group over the past few years resulted in lowered utilisation rate at the moment, leading to pressure to amortise fixed costs and the business operation being affected. Facing these challenges, the Group adopted various measures, such as strengthened brand positioning and images, improved communication channels with public, followed the relevant national policies to mitigate food safety risks, developed sales channels through chain restaurants and branded shops, adhered to product innovation and technological advancement, diversified products and adjusted the

expansion pace and scale. These measures mainly aimed at increasing the profit and improving the utilisation rate gradually. The management will continue to adopt corresponding measures to strike the balance between the profit and the utilisation rate in order to ensure the long term and stable development of the Group.

Product Quality and R&D

During the Review Period, Yurun Food adhered to the operation philosophy of “you trust because we care” and led the industry development by technical research and development. Under the leadership of the Group’s management, quality of products were guaranteed through advanced production process and technology. In the 22nd Press Conference releasing the Product Sales Statistics of the PRC Market (第二十二屆中國市場商品銷售統計結果新聞發佈會) held in April 2014, Yurun Food ranked top in the market shares of low temperature meat products (“LTMP”) and chilled pork in the PRC, and successively held the first position of market shares of LTMP in the PRC market for the past consecutive 16 years. The Group will continue to ensure high product quality, and also focus on the research and development of products which are well received by the market, so as to maintain its competitive advantages and leading position 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 overall business development of the Group during the Review Period. In the first half of 2014, due to the drop in hog price, sales of chilled pork of the Group was HK\$7.125 billion (1H2013: HK\$7.841 billion), representing a decrease of 9.1% over the same period last year, accounting for approximately 74% of the total turnover of the Group prior to inter-segment eliminations (1H2013: 74%) and approximately 87% of the total turnover of the upstream slaughtering segment (1H2013: 86%). Sales of LTMP was HK\$1.303 billion (1H2013: HK\$1.326 billion), representing a decrease of 1.8% over the same period last year, accounting for approximately 14% of the total turnover of the Group prior to inter-segment eliminations (1H2013: 13%) and approximately 91% of the total turnover of the downstream processed meat segment (1H2013: 90%).

Management Discussion and Analysis

Production Facilities and Production Capacity

Adhering to the strict control of investment costs, the Group adjusted its expansion pace according to market change and the operation status of the Group.

In respect to its upstream slaughtering segment, under the management's adjustment in expansion pace, only two new plants of the Group commenced production during the Review Period. As at 30 June 2014, upstream slaughtering capacity was 56.65 million heads per year, representing a slight increase of 1.20 million heads as compared with that as at 31 December 2013.

As of 30 June 2014, the Group's production capacity of downstream processed meat segment remained unchanged at approximately 312,000 tons per year as compared with that as at 31 December 2013.

Financial Review

The Group recorded a turnover of HK\$9.044 billion in the first half of 2014, representing a decrease of 12.2% as compared with HK\$10.303 billion in the same period last year. The Group recorded profit for the period of HK\$16.11 million (1H2013: HK\$15.64 million) in the first half of 2014, representing an increase of 3.0% 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\$197 million (1H2013: HK\$512 million), representing a significant reduction of a loss by approximately 61.5% over the same period last year. Diluted earnings per share was HK\$0.009, representing a decrease of 10.0% from HK\$0.010 in the same period last year.

Turnover

Chilled and Frozen Pork

During the Review Period, the slaughtering volume of the Group increased by approximately 1.8% over that of last year mainly because the Group's major objective was to improve the profitability and therefore made appropriate compromise to the growth of the slaughtering volume.

In the first half of 2014, total sales from upstream business (before inter-segment eliminations) decreased by 10.9% to HK\$8.150 billion (1H2013: HK\$9.145 billion) as compared with the same period last year, of which, sales of chilled pork decreased by 9.1% to HK\$7.125 billion (1H2013: HK\$7.841 billion), accounting for approximately 74% (1H2013: 74%) and approximately 87% (1H2013: 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 21.4% to HK\$1.025 billion (1H2013: HK\$1.304 billion), accounting for approximately 13% of the total turnover of the upstream business (1H2013: 14%).

Processed Meat Products

During the Review Period, sales of processed meat products (before inter-segment eliminations) of the Group was HK\$1.426 billion (1H2013: HK\$1.481 billion), representing a decrease of 3.7% over the same period last year.

Specifically, turnover of LTMP was HK\$1.303 billion, representing a decrease of 1.8% as compared with HK\$1.326 billion in the same period last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 91% (1H2013: 90%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK\$123 million (1H2013: HK\$155 million), accounting for approximately 9% (1H2013: 10%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 59.5% from HK\$419 million in the first half of 2013 to HK\$669 million during the Review Period. Overall gross profit margin increased by 3.3 percentage points to 7.4% from 4.1% in the same period last year. During the Review Period, the increase in gross profit margin was due to the gradual recovery of business and positive effects of new measures of the Group, such as refining the sales channels.

With respect to the upstream business, gross profit margin of chilled pork and frozen pork were 6.4% and -4.2% respectively (1H2013: 3.8% and -10.5% respectively). The overall gross profit margin of the upstream segment was 5.1%, representing an increase of 3.4 percentage points as compared with 1.7% over the same period last year.

Management Discussion and Analysis

With respect to downstream processed meat products, gross profit margin of LTMP was 17.9%, representing a decrease of 1.4 percentage points as compared with 19.3% of the same period last year. Gross profit margin of HTMP was 17.5%, representing an increase of 2.3 percentage points year on year. Overall gross profit margin of the downstream segment was 17.9%, representing a decrease of 0.9 percentage point as compared with 18.8% of the same period last year.

Other Net Income

Other net income for the first half of this year mainly included government subsidies and cold storage rental income. During the Review Period, other net income of the Group was HK\$272 million, representing a decrease of HK\$269 million as compared with HK\$541 million in the same period last year because there was a gain on the disposal of a subsidiary of HK\$222 million in the first half of 2013 but not during the Review Period.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK\$793 million, representing a decrease of 5.1% as compared with HK\$836 million in the same period last year. Such decrease was mainly due to decrease in staff cost and other operating costs under the streamlining and cost control measures during the Review Period. Operating expenses represented 8.8% of the Group's turnover, an increase of 0.7 percentage point as compared with 8.1% of the same period last year due to the decrease in turnover during the Review Period.

Operating Profit

Operating profit of the Group during the Review Period was HK\$148 million, representing an increase of 19.0% from HK\$124 million of the same period last year.

Finance Costs

During the Review Period, net finance costs of the Group were HK\$119 million as compared with HK\$82.39 million in the same period last year. Net finance costs increased mainly because of the increase in interests expense on borrowing due to increased average bank and other borrowings during the Review Period. In addition, depreciation of RMB against Hong Kong dollars compared to 2013 resulted in foreign exchange loss of approximately HK\$9 million during the Review Period, contrary to the foreign exchange gains of approximately HK\$9 million from appreciation of RMB against Hong Kong dollars in same period last year.

Income Tax

The income tax for the Review Period was HK\$10.16 million, representing a decrease of 57.5% as compared with HK\$23.90 million of the same period last year. Effective tax rate was 38.7%, representing a decrease of 21.7 percentage points as compared with 60.4% in the same period last year. The decrease was mainly due to decrease in taxable profit of the meat processing operations 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 was HK\$16.05 million for the Review Period (1H2013: HK\$17.77 million). Net profit margin for the Review Period was 0.2%, comparable to that of the same period last year.

Financial Resources

As at 30 June 2014, the Group's cash balance together with time deposits and pledged deposits were HK\$1.157 billion, approximately 97% (31 December 2013: 95%) of which was denominated in Hong Kong dollars and RMB, representing a decrease of HK\$1.333 billion as compared with HK\$2.490 billion as at 31 December 2013. They were mainly used in operating activities and payment for projects under construction.

Management Discussion and Analysis

As at 30 June 2014, the Group had outstanding bank loans of HK\$7.954 billion (including the domestic medium term notes issued by Nanjing Yurun Food Co., Ltd, a wholly-owned subsidiary of the Company, "MTN"), representing a decrease of HK\$361 million from HK\$8.315 billion as at 31 December 2013, of which, HK\$3.225 billion (31 December 2013: HK\$3.415 billion) were bank loans which are repayable within one year, bank loans which are due within one year are renewable upon expiry. All of our borrowings were denominated in RMB, which is consistent with the borrowings as at 31 December 2013. The fixed rate debt ratio of the Group increased to 65.0% as at 30 June 2014 (31 December 2013: 62.3%). 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 decreased by 22.8% to HK\$510 million during the Review Period as compared with HK\$660 million of the same period last year.

Assets and Liabilities

As at 30 June 2014, the total assets and total liabilities of the Group were HK\$26.256 billion (31 December 2013: HK\$26.942 billion) and HK\$10.365 billion (31 December 2013: HK\$10.931 billion) respectively, representing a decrease of HK\$686 million and HK\$566 million as compared with the total assets and liabilities as at 31 December 2013 respectively.

As at 30 June 2014, property, plant and equipment of the Group amounted to HK\$16.191 billion (31 December 2013: HK\$15.926 billion), representing a slight increase of HK\$265 million as compared with that as at 31 December 2013.

Lease prepayment of the Group as at 30 June 2014 amounted to HK\$3.888 billion (31 December 2013: HK\$3.969 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. There was no addition to cost of land use rights during the Review Period.

Non-current prepayments of the Group represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 30 June 2014, it amounted to HK\$412 million (31 December 2013: HK\$425 million). These assets have not started to depreciate nor amortise yet.

As at 30 June 2014, equity attributable to equity holders of the Company was HK\$15.830 billion in total, representing a decrease of HK\$120 million as compared with HK\$15.950 billion as at 31 December 2013.

As at 30 June 2014, 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 33.9%, representing a decrease of 0.9 percentage point as compared with 34.8% as at 31 December 2013. As at 30 June 2014, after excluding cash and cash equivalents, time deposits and pledged deposits, the gearing ratio was 29.0% (31 December 2013: 24.6%).

Charges on Assets

As at 30 June 2014, certain properties and construction in progress of the Group with a carrying amount of HK\$667 million (31 December 2013: HK\$1.019 billion) and lease prepayments of the Group with a carrying amount of HK\$476 million (31 December 2013: HK\$539 million) were pledged against certain bank loans with a total amount of HK\$1.675 billion (31 December 2013: HK\$2.110 billion).

As at 30 June 2014, secured loans of the Group amounted to HK\$5.80 million (31 December 2013: HK\$5.85 million) which were secured by pledged deposits denominated in RMB amounting to HK\$6.30 million (31 December 2013: HK\$6.41 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 other significant investment nor make any material acquisition or disposal of subsidiaries during the Review Period. As at the date of this report, the Group has no plan to make any significant investment or acquisition of capital assets.

Management Discussion and Analysis

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 30 June 2014.

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. RMB is the functional currency of operating subsidiaries of the Group in the PRC, and 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 2014, the Group had approximately 19,000 (31 December 2013: approximately 23,000) employees in the PRC and Hong Kong in total. During the Review Period, total staff cost was HK\$445 million, accounting for 4.9% of the turnover (1H2013: HK\$478 million, accounting for 4.6% 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.

Environmental Policies and Performance

As a responsible enterprise, the Group is committed to environmental protection and strives to minimise the impact of its existing production and business activities on the environment. During the Review Period, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to minimise waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

Other Information

Interim Dividend

The board of directors of the Company (the “Board”) has resolved not to declare an interim dividend for the Review Period (2013: \$Nil).

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

As at 30 June 2014, the number of issued ordinary shares of the Company was 1,822,755,650; and the interests and short positions of the directors of the Company (“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 ^(Note)	Total	Approximate percentage of interest
Yu Zhangli	Beneficial owner	89,000	9,462,500	9,551,500	0.52%
Li Shibao	Beneficial owner	89,000	5,750,000	5,839,000	0.32%
Feng Kuande	Beneficial owner	–	5,500,000	5,500,000	0.30%
Ge Yuqi	Beneficial owner	–	5,750,000	5,750,000	0.32%

Note:

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 2014, 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 2014, so far as is known to the Directors and chief executive of the Company, the interests or short positions of substantial shareholders/other persons (other than Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name	Nature	Number of shares	Approximate percentage of the issued shares
Willie Holdings Limited	Long position	470,699,900 ^(Note)	25.82%
Zhu Yicai	Long position	470,699,900 ^(Note)	25.82%
Wu Xueqin	Long position	470,699,900 ^(Note)	25.82%

Note:

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"), a 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 2014, 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 held on 21 May 2013 (the "2013 AGM"), the shareholders of the Company 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 2013 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	Number of shares which may be issued pursuant to the share options					Exercise price per share ⁽⁴⁾ HK\$	Date of grant (DD.MM.YYYY)	Option period ^{(1) & (2)} (DD.MM.YYYY)
	As at 1 January 2014	Granted during the Review Period	Exercised during the Review Period	Lapsed during the Review Period ⁽²⁾	As at 30 June 2014			
Directors								
Yu Zhangli	3,925,000	-	-	(1,962,500)	1,962,500	18.04	03.09.2011	03.09.2011 – 02.09.2021
	10,000,000	-	-	(2,500,000)	7,500,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	13,925,000	-	-	(4,462,500)	9,462,500			
Li Shibao	250,000	-	-	(125,000)	125,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	7,500,000	-	-	(1,875,000)	5,625,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	7,750,000	-	-	(2,000,000)	5,750,000			
Feng Kuande	3,500,000	-	-	(1,750,000)	1,750,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	5,000,000	-	-	(1,250,000)	3,750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	8,500,000	-	-	(3,000,000)	5,500,000			
Ge Yuqi	4,000,000	-	-	(2,000,000)	2,000,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	5,000,000	-	-	(1,250,000)	3,750,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	9,000,000	-	-	(3,250,000)	5,750,000			
Subtotal	39,175,000 ⁽³⁾	-	-	(12,712,500)	26,462,500 ⁽³⁾			
Other employees (including ex-employees)								
In aggregate	7,634,000	-	-	(240,000)	7,394,000	7.46	10.11.2006	10.11.2006 – 09.11.2016
	30,025,000	-	-	(17,500,000)	12,525,000	18.04	03.09.2011	03.09.2011 – 02.09.2021
	32,100,000	-	-	(8,025,000)	24,075,000	5.142	25.03.2013	25.03.2013 – 24.03.2023
	105,500,000	-	-	(26,375,000)	79,125,000	5.002	14.06.2013	14.06.2013 – 13.06.2023
Subtotal	175,259,000	-	-	(52,140,000)	123,119,000			
Total	214,434,000	-	-	(64,852,500)	149,581,500			

Other Information

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, 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 third tranche (25%) of the share options granted on 3 September 2011 and the first tranche (25%) of the share options granted on 25 March 2013 and 14 June 2013 respectively, which should have been vested after the publication of the annual results of the year 2013, had lapsed due to the performance targets of the Group and the individual grantees not having been achieved.
- (3) The share options represent personal interests 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, 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.
- (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.

Corporate Governance

The Company adheres to corporate governance principles of integrity, transparency, openness and efficiency. It has strived to strictly observe and follow stringent corporate governance practice at all times through a comprehensive corporate governance structure and measures so as to achieve a high standard of corporate governance and to improve shareholder value.

The Board comprises nine Directors as at the date of this report. To facilitate effective management, the Board has delegated certain functions to various Board committees, including, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Company has formulated specific terms of reference of each committee, covering its authority, responsibilities and functions. The major responsibilities of the Board and its committees include supervising the implementation of corporate governance, monitoring and advising the management in respect of financial and business strategy and targets, monitoring public disclosures, as well as assessing the performance of the management whether they are in line with the Company's operating objectives.

The Company has also established internal control system to ensure that the Company's assets are under protection, operating and governance measures are in place, business risks are properly managed and accounting records and financial statements are properly kept and maintained. The Audit Committee is responsible for reviewing the effectiveness of the Group's internal control system with the assistance of the Group's Internal Audit Department.

The Company maintains a highly transparent governance mechanism by publishing information to shareholders and investors in a timely manner. We use several communication channels to ensure that the Company's shareholders are provided with ready, equal and timely access to information about the Company.

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 Review Period 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, an executive Director and the Chairman of the Board, were absent from the annual general meeting of the Company held on 20 May 2014 for overseas or other engagements.

Other Information

Model Code for Securities Transactions 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 Review Period.

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 Review Period.

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 Review Period.

Change of Director and Change in Director's Information

Mr. Li Chenghua tendered his resignation as a non-executive director of the Company effective from 23 August 2014.

The Company was informed by Qiao Jun that after the Company's last published 2013 Annual Report, the changes in his biographical details are as follows:

- (1) he was appointed as the Vice-President of the Nanjing University of Finance and Economics with effect from 7 May 2014; and
- (2) he ceased to be an independent director of Nanjing Zhongbei (Group) Company Limited, a company listed on the Shenzhen Stock Exchange, with effect from 9 May 2014.

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

By Order of the Board

Yu Zhangli

Chairman

Hong Kong, 22 August 2014

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 28 which comprises the consolidated balance sheet of China Yurun Food Group Limited as of 30 June 2014 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, *Interim financial reporting*.

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 2014 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

22 August 2014

Consolidated Income Statement

for the six months ended 30 June 2014 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2014 \$'000	2013 \$'000
Turnover	4	9,044,264	10,302,738
Cost of sales		(8,375,737)	(9,883,696)
Gross profit		668,527	419,042
Other net income	6	272,298	541,137
Distribution expenses		(309,067)	(319,988)
Administrative and other operating expenses		(484,066)	(516,045)
Results from operating activities		147,692	124,146
Finance income		19,444	32,977
Finance costs		(138,253)	(115,363)
Net finance costs	7(a)	(118,809)	(82,386)
Share of loss of an associate (net of income tax)		–	(133)
Share of loss of a joint venture (net of income tax)		(2,619)	(2,085)
Profit before income tax	7	26,264	39,542
Income tax expense	8	(10,155)	(23,903)
Profit for the period		16,109	15,639
Attributable to:			
Equity holders of the Company		16,052	17,770
Non-controlling interests		57	(2,131)
Profit for the period		16,109	15,639
Earnings per share			
Basic	10(a)	\$0.009	\$0.010
Diluted	10(b)	\$0.009	\$0.010

The notes on pages 19 to 28 form part of this interim financial report.

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2014 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2014 \$'000	2013 \$'000
Profit for the period		16,109	15,639
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		(136,912)	257,048
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary		–	(16,951)
		(136,912)	240,097
Total comprehensive income for the period		(120,803)	255,736
Attributable to:			
Equity holders of the Company		(120,273)	256,865
Non-controlling interests		(530)	(1,129)
Total comprehensive income for the period		(120,803)	255,736

The notes on pages 19 to 28 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2014 – unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2014 \$'000	31 December 2013 \$'000
Non-current assets			
Property, plant and equipment	11	16,190,799	15,926,126
Investment properties		200,229	205,944
Lease prepayments		3,800,904	3,881,766
Goodwill		95,810	96,736
Interest in a joint venture		15,481	18,268
Non-current prepayments		411,734	424,651
Deferred tax assets		24,637	28,064
		20,739,594	20,581,555
Current assets			
Inventories	12	1,598,320	1,170,362
Current portion of lease prepayments		86,738	87,579
Trade and other receivables	13	2,668,809	2,608,302
Income tax recoverable		4,865	4,365
Pledged deposits		10,808	11,483
Time deposits		24,347	33,629
Cash and cash equivalents	14	1,122,176	2,444,694
		5,516,063	6,360,414
Current liabilities			
Bank loans		3,224,780	3,415,390
Finance lease liabilities		533	634
Trade and other payables	15	2,076,911	2,244,741
Income tax payable		7,701	11,091
		5,309,925	5,671,856
Net current assets		206,138	688,558
Total assets less current liabilities		20,945,732	21,270,113

Consolidated Balance Sheet

at 30 June 2014 – unaudited
(Expressed in Hong Kong dollars)

	30 June 2014 \$'000	31 December 2013 \$'000
Non-current liabilities		
Bank loans	1,834,684	1,977,820
Medium term notes	2,894,124	2,921,312
Finance lease liabilities	146,273	181,763
Deferred tax liabilities	180,140	177,904
	5,055,221	5,258,799
NET ASSETS	15,890,511	16,011,314
EQUITY		
Share capital	182,276	182,276
Reserves	15,647,462	15,767,735
Total equity attributable to equity holders of the Company	15,829,738	15,950,011
Non-controlling interests	60,773	61,303
TOTAL EQUITY	15,890,511	16,011,314

Approved and authorised for issue by the board of directors on 22 August 2014

Yu Zhangli
Director

Li Shibao
Director

The notes on pages 19 to 28 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014 – unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity holders of the Company									
		Share	Share	Capital	Merger	PRC	Exchange	Retained	Total	Non-	Total
		capital	premium	surplus	reserve	statutory	reserve	earnings		controlling	equity
Note		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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	16(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
At 1 January 2014		182,276	7,400,418	3,887	(69,864)	863,598	1,883,183	5,686,513	15,950,011	61,303	16,011,314
Profit for the period		-	-	-	-	-	-	16,052	16,052	57	16,109
Total other comprehensive income for the period		-	-	-	-	-	(136,325)	-	(136,325)	(587)	(136,912)
Total comprehensive income for the period		-	-	-	-	-	(136,325)	16,052	(120,273)	(530)	(120,803)
At 30 June 2014		182,276	7,400,418	3,887	(69,864)	863,598	1,746,858	5,702,565	15,829,738	60,773	15,890,511

The notes on pages 19 to 28 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2014 - unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2014 \$'000	2013 \$'000
Cash used in operations		(538,135)	(303,108)
Tax paid		(7,283)	(18,242)
Net cash used in operating activities		(545,418)	(321,350)
Investing activities			
Acquisition of property, plant and equipment		(509,613)	(618,748)
Proceeds from disposal of a subsidiary		-	356,430
Payments for lease prepayments		-	(41,271)
Other cash flows arising from investing activities		37,428	(39,706)
Net cash used in investing activities		(472,185)	(343,295)
Financing activities			
Net proceeds from bank loans and medium term notes		(285,404)	1,231,220
Changes in pledged deposits		567	(641,395)
Other cash flows arising from financing activities		(3,523)	(3,584)
Net cash (used in)/generated from financing activities		(288,360)	586,241
Net decrease in cash and cash equivalents		(1,305,963)	(78,404)
Cash and cash equivalents at 1 January	14	2,444,694	2,812,267
Effect of exchange rate fluctuation on cash held		(16,555)	52,029
Cash and cash equivalents at 30 June	14	1,122,176	2,785,892

The notes on pages 19 to 28 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 2014 comprises the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interest in 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 22 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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 2013 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 2013 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 2013 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 21 March 2014.

3 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. These developments have had no material impact on the contents of this interim financial report.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

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 2014 and 2013 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External revenue	7,619,387	8,825,483	1,424,877	1,477,255	9,044,264	10,302,738
Inter-segment revenue	530,519	319,974	1,097	4,054	531,616	324,028
Reportable segment revenue	8,149,906	9,145,457	1,425,974	1,481,309	9,575,880	10,626,766
Depreciation and amortisation	(255,770)	(248,795)	(47,990)	(50,111)	(303,760)	(298,906)
Reversal of/(provision for) impairment losses on trade and other receivables	7,412	(1,603)	16,574	(2,511)	23,986	(4,114)
Government subsidies	79,596	270,740	140,895	27,320	220,491	298,060
Reportable segment (loss)/profit	(16,922)	(68,157)	183,832	25,111	166,910	(43,046)
Income tax expense	(939)	(2,000)	(8,917)	(21,766)	(9,856)	(23,766)

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) Reconciliations of reportable segment revenue and profit

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Revenue		
Total revenue from reportable segments	9,575,880	10,626,766
Elimination of inter-segment revenue	(531,616)	(324,028)
Consolidated revenue	9,044,264	10,302,738
Profit		
Reportable segment profit/(loss)	166,910	(43,046)
Elimination of inter-segment profits	(2,917)	(9,803)
Reportable segment profit/(loss) derived from Group's external customers	163,993	(52,849)
Share of loss of an associate	–	(133)
Share of loss of a joint venture	(2,619)	(2,085)
Gain on disposal of a subsidiary	–	222,191
Net finance costs	(118,809)	(82,386)
Income tax expense	(10,155)	(23,903)
Unallocated head office and corporate expenses	(16,301)	(45,196)
Consolidated profit for the period	16,109	15,639

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	
	2014 \$'000	2013 \$'000
Government subsidies	221,823	298,060
Gain on disposal of a subsidiary (note)	–	222,191
Rental income	16,591	10,226
Sales of scrap	3,005	2,781
Sundry income	30,879	7,879
	272,298	541,137

Note: In 2013, the Group disposed of its entire equity interest in its wholly owned subsidiary in chilled and frozen meat segment to independent third parties, at a cash consideration of \$357,373,000. A gain on disposal of a subsidiary amounting to \$222,191,000 was recognised in profit or loss during the six months ended 30 June 2013 (six months ended 30 June 2014: \$Nil).

7 Profit before income tax

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

(a) Net finance costs

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Interest on bank loans and medium term notes wholly repayable within five years	206,496	191,145
Interest on bank loans not wholly repayable within five years	32,426	32,125
Interest on lease obligations	3,217	3,288
Less: Interest expense capitalised into property, plant and equipment under development	(114,080)	(113,036)
	128,059	113,522
Bank charges	1,227	1,841
Net foreign exchange loss/(gain)	8,967	(9,302)
Interest income from bank deposits	(6,825)	(13,271)
Investment income from available-for-sale financial assets	(12,619)	(10,404)
	118,809	82,386

Certain of the Group's bank loan facilities were subject to the fulfillment of covenants relating to the financial ratios and capital requirements, as are commonly found in lending arrangements with financial institutions. These financial ratios and capital requirements relate to the financial performance of certain PRC subsidiaries of the Group. If the Group did not fulfill the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 30 June 2014, the Group could not fulfill covenants imposed by a bank on current loans of \$188,964,000. The Group has already rectified this non-compliance as of July 2014 and obtained a one-time waiver letter from the bank.

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	
	2014 \$'000	2013 \$'000
(Reversal of)/provision for impairment losses on trade and other receivables	(23,986)	4,114
Amortisation of lease prepayments	43,799	42,057
Depreciation	267,987	264,723

8 Income tax expense

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Current tax expense	3,383	24,999
Deferred tax	6,772	(1,096)
	10,155	23,903

- (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 2014 and 2013.
- (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 2014 and 2013, except for the enterprises engaged in the primary processing of agricultural products which 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 2014 and 2013.
- (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 2014 was 38.7% (six months ended 30 June 2013: 60.4%).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

9 Other comprehensive income

The components of other comprehensive income do not have any tax effect for the six months ended 30 June 2014 and 2013.

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 \$16,052,000 (six months ended 30 June 2013: \$17,770,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2013: 1,822,756,000).

(b) Diluted earnings per share

Diluted earnings per share equals to basic earnings per share for the six months ended 30 June 2014 and 30 June 2013 because all potential ordinary shares outstanding were 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 2014 are as follows:

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Additions	705,248	677,359
Carrying value of assets disposed of through disposal of a subsidiary	–	(108,072)
Carrying value of other assets disposed of	(29,792)	(4,488)
	705,248	564,800

12 Inventories

	30 June	31 December
	2014 \$'000	2013 \$'000
Raw materials	273,831	313,476
Work in progress	72,464	176,460
Finished goods	1,252,025	680,426
	1,598,320	1,170,362

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

12 Inventories (continued)

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	
	2014	2013
	\$'000	\$'000
Carrying amount of inventories sold	8,341,051	9,838,569
Write down of inventories	34,686	45,127
	8,375,737	9,883,696

13 Trade and other receivables

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) of the Group based on invoice date and a breakdown of trade and other receivables as at the balance sheet date are analysed as follows:

	30 June	31 December
	2014	2013
	\$'000	\$'000
Trade receivables		
– Within 30 days	300,030	433,858
– 31 days to 90 days	182,813	137,238
– 91 days to 180 days	47,001	146,152
– Over 180 days	97,586	45,085
	627,430	762,333
Less: Provision for impairment of trade receivables	(11,821)	(38,733)
Total trade receivables, net of impairment losses	615,609	723,600
Bills receivable	7,206	26,904
Value-added tax (“VAT”) recoverable	1,745,615	1,606,379
Deposits and prepayments	107,307	155,323
Others	193,072	96,096
	2,668,809	2,608,302

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

14 Cash and cash equivalents

	30 June	31 December
	2014	2013
	\$'000	\$'000
Cash at bank and in hand	1,122,176	2,444,694

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

15 Trade and other payables

An ageing analysis of trade payables based on invoice date and a breakdown of trade and other payables (including amounts due to related parties) as at the balance sheet date are analysed as follows:

	30 June 2014 \$'000	31 December 2013 \$'000
Trade payables		
— Within 30 days	636,864	707,780
— 31 days to 90 days	99,861	129,745
— 91 days to 180 days	19,954	30,593
— Over 180 days	62,571	63,075
Total trade payables	819,250	931,193
Receipts in advance	172,001	249,161
Deposits from customers	122,919	107,432
Salary and welfare payables	105,134	109,221
VAT payable	7,227	4,145
Payables for acquisitions of property, plant and equipment	480,690	412,118
Other payables and accruals	369,690	431,471
	2,076,911	2,244,741

16 Capital, reserves and dividends

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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: \$Nil).

(b) Equity settled share-based transactions

On 3 September 2011, 25 March 2013 and 14 June 2013, 83,400,000 share options ("2011 Options"), 59,600,000 share options ("2013 March Option") and 105,500,000 share options ("2013 June 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 2014). Each option gives the holder the right to subscribe for one ordinary share of the Company. The options granted are subject to a vesting scale in tranches of 25% each annum starting from 2012, 2014 and 2014 after announcement of results for the previous year and achievement of performance-based vesting condition. The option shall lapse when the performance-based condition is not satisfied. The exercise prices are \$18.04, \$5.142 and \$5.002 respectively, being the weighted average closing prices of the Company's ordinary shares immediately before the grant.

The Company estimated that the performance-based condition of the 2011 Options, 2013 March Options and 2013 June Options would not be achieved and hence no amount is recognised as cost of services received from the grantee during the six months ended 30 June 2014 (six months ended 30 June 2013: cost of services received from the grantee: \$25,779,000).

No options were exercised while 64,852,500 (six months ended 30 June 2013: 20,850,000) options were lapsed during the six months ended 30 June 2014.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

17 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 2014 and 31 December 2013.

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

	30 June 2014 \$'000	31 December 2013 \$'000
Contracted for	5,805,931	5,925,879

19 Related party transactions

During the six months ended 30 June 2014 and 2013, 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	
	2014 \$'000	2013 \$'000
Sales of raw materials to related companies (note)	3,049	1,801
Sales of raw materials to a joint venture	–	10,128
Sales of finished goods to related companies (note)	8,138	373
Purchases of raw materials from related companies (note)	208,385	129,577

Note: Zhu Yicai ("Mr. Zhu") is the beneficial shareholder of the Company and also has beneficial interest in the related companies. Mr. Zhu is the Honorary Chairman and the senior advisor of the Board of the Company.

- (ii) The Group leased certain property, plant and equipment and land use rights owned by the related parties (note 19(a)(i)) under finance leases and operating leases during the six months ended 30 June 2014. The rental paid or payable to the related parties amounted to \$3,523,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: \$3,483,000).
- (iii) During the six months ended 30 June 2014, certain related parties (note 19(a)(i)) made available their properties with a carrying value of \$142,970,000 as at 30 June 2014 to the Group (31 December 2013: \$147,294,000). No rental 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 2014 \$'000	31 December 2013 \$'000
Other receivables due from related companies (note 19(a)(i))	2,324	3,346
Trade receivables due from related companies (note 19(a)(i))	2,761	–

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 2014 \$'000	31 December 2013 \$'000
Receipts in advance from a joint venture	–	22
Trade payables due to related companies (note 19(a)(i))	39,753	28,589

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	
	2014 \$'000	2013 \$'000
Salaries and other emoluments	2,524	3,283
Contributions to retirement benefit schemes	77	86
Share-based payment	–	4,734
	2,601	8,103