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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 (the "Review Year") together with the comparative figures of the corresponding period in 2015 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	4	**16,702,103**	20,164,864
Cost of sales		**(15,994,270)**	(19,523,176)
Gross profit		**707,833**	641,688
Other net income/(loss)	5	**25,737**	(179,928)
Distribution expenses		**(644,103)**	(738,769)
Administrative and other operating expenses		**(2,038,392)**	(2,252,779)
Results from operating activities		**(1,948,925)**	(2,529,788)
Finance income		**3,908**	18,357
Finance costs		**(408,017)**	(435,266)
Net finance costs		**(404,109)**	(416,909)
Share of loss of a joint venture (net of income tax)		**–**	(648)
Loss before income tax	6	**(2,353,034)**	(2,947,345)
Income tax credit/(expense)	7	**10,764**	(29,857)
Loss for the year		**(2,342,270)**	(2,977,202)
Attributable to:			
Equity holders of the Company		**(2,341,865)**	(2,976,405)
Non-controlling interests		**(405)**	(797)
Loss for the year		**(2,342,270)**	(2,977,202)
Loss per share			
Basic	9(a)	**HK$(1.285)**	HK$(1.633)
Diluted	9(b)	**HK$(1.285)**	HK$(1.633)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	**2016** ***HK$'000***	2015 *HK$'000*
Loss for the year		**(2,342,270)**	(2,977,202)
Other comprehensive income for the year (after tax and reclassification adjustments)	*10*		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**(680,275)**	(710,019)
Foreign currency translation differences reclassified to profit or loss upon disposal/ deconsolidation of subsidiaries and disposal of a joint venture		**4,955**	2,429
		(675,320)	(707,590)
Total comprehensive income for the year		**(3,017,590)**	(3,684,792)
Attributable to:			
Equity holders of the Company		**(3,013,949)**	(3,680,813)
Non-controlling interests		**(3,641)**	(3,979)
Total comprehensive income for the year		**(3,017,590)**	(3,684,792)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**12,553,216**	14,656,216
Investment property		**204,096**	–
Lease prepayments		**2,595,284**	2,988,918
Goodwill		**–**	90,776
Intangible assets		**25,628**	36,484
Interest in a joint venture		**–**	–
Non-current prepayments and receivables		**233,752**	214,859
Deferred tax assets		**16**	11,014
		15,611,992	17,998,267
Current assets			
Inventories		**642,780**	885,300
Other investment		**939**	1,003
Current portion of lease prepayments		**67,917**	70,440
Trade and other receivables	*11*	**2,617,132**	3,134,274
Income tax recoverable		**2,590**	1,387
Restricted bank deposits		**46,103**	–
Pledged deposits		**4,356**	7,493
Time deposits		**4,472**	10,199
Cash and cash equivalents		**291,868**	401,011
Assets held for sale		**19,547**	–
		3,697,704	4,511,107
Current liabilities			
Bank and other loans	*13*	**6,308,910**	4,774,516
Short term financing notes	*14(a)*	**–**	596,801
Medium term notes	*14(b)*	**–**	1,192,305
Finance lease liabilities		**442**	542
Trade and other payables	*12*	**2,992,397**	2,684,164
Income tax payable		**7,241**	4,553
Liabilities held for sale		**7,330**	–
		9,316,320	9,252,881
Net current liabilities		**(5,618,616)**	(4,741,774)
Total assets less current liabilities		**9,993,376**	13,256,493

	Note	**2016** *HK$'000*	2015 *HK$'000*
Non-current liabilities			
Bank loans	*13*	**474,003**	756,021
Finance lease liabilities		**128,615**	137,791
Deferred tax liabilities		**–**	31,051
		602,618	924,863
NET ASSETS		**9,390,758**	12,331,630
EQUITY			
Share capital		**182,276**	182,276
Reserves		**9,160,684**	12,098,265
Total equity attributable to equity holders of the Company		**9,342,960**	12,280,541
Non-controlling interests		**47,798**	51,089
TOTAL EQUITY		**9,390,758**	12,331,630

Notes:

1. REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the audit committee of the Company.

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited ("Moore Stephens"), Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Moore Stephens in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor. The auditor disclaimed an opinion and an extract of its report is reproduced on pages 18 to 21 of this announcement.

2. BASIS OF PREPARATION

Going concern basis

(i) Uncertainties arising from the Incident

On 26 March 2015, the Company received notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board and a director of certain key operating subsidiaries of the Group, that a Procuratorate has imposed measures on Mr. Zhu such that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). Up to the date of approval of these consolidated financial statements, the Company has not received any update on the circumstances of this Incident or had any contact with Mr. Zhu.

Given that Mr. Zhu only occupies a non-executive role in the Company and the Group and was not involved in the daily management of the Group and the Group has not received any notice from any bank to accelerate repayment of loans for the reasons of the Incident, the directors of the Company (the "Directors") are of the view that the Incident have not posed any material adverse impact on the operation of the Group and the Group will be able to continue as a going concern for the foreseeable future so far as this matter is concerned.

(ii) Other material uncertainties

During the year ended 31 December 2016, the Group's gross profit amounted to HK$707,833,000 (2015: HK$641,688,000). The Group recorded a net loss of HK$2,342,270,000 (2015: HK$2,977,202,000) and net operating cash outflow of HK$106,583,000 (2015: HK$186,922,000) for the year ended 31 December 2016. As at 31 December 2016, the Group had net current liabilities of HK$5,618,616,000 (2015: HK$4,741,774,000). Its total borrowings and finance lease liabilities amounted to HK$6,911,970,000 (2015: HK$7,457,976,000), out of which HK$6,309,352,000 (2015: HK$6,564,164,000) is due within 12 months of that date. The Group incurred interest expenses of HK$368,092,000 (2015: HK$484,061,000) for the year ended 31 December 2016. As at 31 December 2016, the Group could not fulfil covenants imposed by certain banks of certain bank loans of an aggregate amount of HK$3,792,684,000 (2015: HK$2,200,752,000), of which repayments of HK$776,052,000 (2015: HK$104,458,000) were due on or before 31 December 2016. Certain subsidiaries of the Group are also parties to various litigations (note 15). These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The Directors have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

(i) Actively negotiating with banks to renew bank loans that have fallen due;

(ii) Implementing comprehensive policies to monitor cash flows through cutting costs and capital expenditure;

(iii) Taking active measures to expedite collections of outstanding receivables;

(iv) Seeking potential strategic investors; and

(v) Looking for buyers for certain non-core assets.

Taking into account the Group's cash flow projections covering a period of twelve months from the end of the reporting period prepared by management, and assuming the success of the above measures, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued the following amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group and are relevant to the Group's financial statements:

– Annual improvements to IFRSs 2012-2014 Cycle

– Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture

– Amendments to IFRS 11, Accounting for acquisitions of interests in joint operation

– Amendments to IAS 1, Disclosure initiative

– Amendments to IAS 16, Property, plant and equipment and IAS 38, Intangible assets concerning "Clarification of acceptable methods of depreciation and amortisation"

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other amended IFRSs are discussed below:

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the sales value of goods sold to customers, excludes value-added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts and volume rebates.

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM"), the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Chilled and frozen meat: The chilled and frozen meat segment carries on the business of slaughtering, production and sales of chilled and frozen meat.

Processed meat products: The processed meat products segment manufactures and distributes processed meat products.

The Group's CODM reviews the results of the two operating segments regularly. The decisions made regarding resource allocation and performance assessment are mainly based on the segment results.

(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 years ended 31 December 2016 and 2015 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**14,610,918**	17,745,205	**2,091,185**	2,419,659	**16,702,103**	20,164,864
Inter-segment revenue	**132,432**	399,630	**14,300**	24,550	**146,732**	424,180
Reportable segment revenue	**14,743,350**	18,144,835	**2,105,485**	2,444,209	**16,848,835**	20,589,044
Depreciation and amortisation	**(366,334)**	(422,653)	**(97,540)**	(108,907)	**(463,874)**	(531,560)
Impairment losses on property, plant and equipment and lease prepayments	**(851,350)**	(1,243,377)	**(316,812)**	–	**(1,168,162)**	(1,243,377)
Impairment loss on goodwill	**(88,734)**	–	**–**	–	**(88,734)**	–
Provision for impairment losses on trade and other receivables, net	**(1,360)**	(2,476)	**(33,279)**	(12,985)	**(34,639)**	(15,461)
Government subsidies	**29,733**	73,483	**5,883**	28,325	**35,616**	101,808
Reportable segment loss	**(1,281,034)**	(2,015,673)	**(659,579)**	(186,435)	**(1,940,613)**	(2,202,108)
Income tax (expense)/ credit	**(6,766)**	(1,306)	**18,861**	(28,162)	**12,095**	(29,468)

(b) Reconciliations of reportable segment revenue and loss

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Total revenue from reportable segments	**16,848,835**	20,589,044
Elimination of inter-segment revenue	**(146,732)**	(424,180)
Consolidated revenue	**16,702,103**	20,164,864
Loss		
Reportable segment loss	**(1,940,613)**	(2,202,108)
Elimination of inter-segment profits	**2,716**	1,041
Reportable segment loss derived from the Group's external customers	**(1,937,897)**	(2,201,067)
Share of loss of a joint venture	**–**	(648)
Loss on disposal of a joint venture	**–**	(2,086)
Gain/(loss) on disposal and deconsolidation of subsidiaries	**62,890**	(63,757)
Impairment losses on receivables arising from disposal of a subsidiary	**–**	(186,046)
Net finance costs	**(404,109)**	(416,909)
Income tax credit/(expense)	**10,764**	(29,857)
Unallocated head office and corporate expenses	**(73,918)**	(76,832)
Consolidated loss for the year	**(2,342,270)**	(2,977,202)

(c) Geographical information

The Group's revenue and loss are derived entirely from the manufacturing and sales of chilled and frozen meat and processed meat products in the People's Republic of China (the "PRC"). Almost all of the Group's non-current assets are located in the PRC.

(d) Information about major customers

During the years ended 31 December 2016 and 2015, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

5. OTHER NET INCOME/(LOSS)

	2016	2015
	HK$'000	*HK$'000*
Government subsidies	**35,616**	103,115
Provision for loss on litigation *(Note 15(ii))*	**(115,028)**	–
Loss on disposal of a joint venture	**–**	(2,086)
Gain/(loss) on disposal/deconsolidation of subsidiaries *(note (i))*	**62,890**	(63,757)
Gain/(loss) on disposal of lease prepayments	**15,311**	(69,408)
Gain/(loss) on disposal of property, plant and equipment	**23,260**	(51,739)
Impairment losses on receivables arising from disposal of a subsidiary	**–**	(186,046)
Impairment losses on assets held for sale *(note (ii))*	**(80,726)**	–
Rental income	**28,456**	37,022
Sales of scrap	**3,359**	1,005
Sundry income	**52,599**	51,966
	25,737	(179,928)

Notes:

(i) During the year ended 31 December 2016, the Group disposed of its entire equity interest of a wholly owned subsidiary in chilled and frozen meat segment at a total consideration of HK$66,713,000. A gain on disposal of a subsidiary amounting to HK$62,890,000 was recognised during the year ended 31 December 2016.

(ii) In June 2016, management is committed to a plan to dispose of the non-current assets of a wholly-owned subsidiary in chilled and frozen meat segment to a third party. Accordingly, the assets to be disposed were classified as assets held for sale and measured at the lower of their carrying amounts and fair value less costs to sell. Impairment losses of approximately HK$80,726,000 were then recognised during the year ended 31 December 2016. As at 31 December 2016, the relevant assets were disposed.

6. LOSS BEFORE INCOME TAX

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

	2016	2015
	HK$'000	*HK$'000*
Cost of inventories	**15,994,270**	19,523,176
Depreciation	**399,074**	455,395
(Gain)/loss on disposal of property, plant and equipment	**(23,260)**	51,739
(Gain)/loss on disposal of lease prepayments	**(15,311)**	69,408
Amortisation of lease prepayments	**67,568**	79,655
Impairment losses on property, plant and equipment	**947,509**	1,025,027
Impairment losses on lease prepayments	**220,653**	252,512
Impairment loss on goodwill	**88,734**	–
Interest on borrowings, net of capitalised interest expense	**340,216**	369,401
Interest income from bank deposits	**(7,263)**	(14,003)
Investment income from available-for-sale financial assets	**–**	(4,354)

7. INCOME TAX (CREDIT)/EXPENSE

Income tax (credit)/expense in the consolidated statement of profit or loss:

	2016	2015
	HK$'000	*HK$'000*
Current tax expense		
Current year	**6,048**	10,706
Under-provision in respect of prior years	**3,086**	1,784
	9,134	12,490
Deferred tax (credit)/expense		
(Reversal)/origination of temporary differences	**(19,898)**	17,367
Income tax (credit)/expense in the consolidated statement of profit or loss	**(10,764)**	29,857

(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 during the years ended 31 December 2016 and 2015.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the years ended 31 December 2016 and 2015, 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 years ended 31 December 2016 and 2015.

(d) Under the PRC tax law, dividends received by foreign investors from its investment in foreign invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement between the PRC and Hong Kong, the investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

(e) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered as a PRC resident enterprise and subject to PRC corporate income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC corporate income tax rate 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.

8. DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2016 (2015: HK$Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2016 is based on the loss attributable to equity holders of the Company for the year of HK$2,341,865,000 (2015: HK$2,976,405,000) and the weighted average number of 1,822,756,000 (2015: 1,822,756,000) shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the year ended 31 December 2016 and 2015 because the potential ordinary shares outstanding were anti-dilutive.

10. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2016 and 2015.

11. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**394,548**	561,672
Bills receivable	**22**	21,724
Value-added tax recoverable	**1,979,951**	1,951,077
Deposits and prepayments	**168,255**	116,710
Receivables arising from the disposal of a subsidiary	**–**	388,990
Others	**74,356**	94,101
	2,617,132	3,134,274

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

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) of the Group based on invoice date is analysed as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**211,172**	341,309
31 days to 90 days	**106,553**	139,861
91 days to 180 days	**40,810**	48,599
Over 180 days	**36,013**	31,903
	394,548	561,672

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Special approval from senior management is required for extension of credit terms.

12. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**794,304**	960,278
Receipts in advance	**278,495**	260,285
Deposits from customers	**111,297**	118,375
Salary and welfare payables	**60,424**	82,543
Value-added tax payable	**5,020**	4,239
Payables for acquisitions of property, plant and equipment	**574,470**	503,671
Interest payables	**219,129**	106,345
Other payables and accruals	**949,258**	648,428
	2,992,397	2,684,164

An ageing analysis of trade payables of the Group based on invoice date is analysed as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**566,339**	690,771
31 days to 90 days	**76,561**	95,153
91 days to 180 days	**19,513**	57,131
Over 180 days	**131,891**	117,223
	794,304	960,278

13. BANK AND OTHER LOANS

Certain of the Group's bank loan facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 31 December 2016, the Group could not fulfil covenants imposed by certain banks on certain loans of an aggregate amount of HK$3,792,684,000 (2015: HK$2,200,752,000). Included in this amount are, (i) loans of an aggregate amount of HK$142,583,000 (2015: HK$61,006,000) which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position; and (ii) out of the outstanding loan of HK$1,033,175,000 (2015: HK$291,456,000), of which repayments of HK$776,052,000 (2015: HK$104,458,000) were due on or before 31 December 2016 but were not yet renewed or repaid at the end of the reporting period. The Group is negotiating with the banks to renew bank loans which have fallen due but are not yet renewed or repaid. As at the date of this announcement, the aforesaid bank loans were not yet renewed (2015: HK$17,904,000) and bank loans of HK$699,000 (2015: HK$5,741,000) were repaid.

Subsequent to 31 December 2016 and up to the date of the announcement, the Group has reached consensus with certain banks to extend the repayment dates of certain outstanding loans of HK$289,201,000 which were due on or before 31 December 2016 to year 2017 and after.

At 31 December 2016, there were outstanding litigations commenced by banks in the PRC against certain subsidiaries of the Group requesting such subsidiaries to secure the repayment of the outstanding bank loans of HK$314,349,000 (2015: HK$100,776,000) or otherwise assets of equivalent amount immediately. Certain assets of the Group with carrying value of HK$356,225,000 (2015: HK$87,864,000) have been frozen by the court in the PRC as of 31 December 2016 which included restricted bank deposits of HK$46,103,000 (2015: HK$Nil). The Group is negotiating with the banks to settle these litigations. As mentioned above, subsequent to 31 December 2016 and up to the date of this announcement, the Group mutually agreed with certain banks that the repayment dates of certain outstanding loans of HK$289,201,000 which were due on or before 31 December 2016 were extended to year 2017 and after. The above mentioned litigations have already been closed.

14. SHORT TERM FINANCING NOTES AND MEDIUM TERM NOTES

(a) Short term financing notes

On 16 March 2015, a subsidiary of the Group issued the first tranche of 366-day short term financing notes of RMB500,000,000 in the PRC interbank debenture market with an interest rate of 6.45% per annum. The notes fell due on 17 March 2016 and were repaid in full on 31 March 2016.

(b) Medium term notes

	2016	2015
	HK$'000	*HK$'000*
Medium term notes	–	1,192,305
Less: medium term notes due within one year	–	(1,192,305)
Non-current medium term notes	–	–

On 10 May 2013, a subsidiary of the Group issued the second tranche of unsecured 3-year medium term notes of RMB1,000,000,000 in the PRC interbank debenture market with an interest rate of 5.27% per annum and due on 13 May 2016, the notes were repaid in full on 16 May 2016. The first tranche of unsecured 3-year medium term notes of RMB1,300,000,000 with an interest rate of 5.49% per annum issued on 17 October 2012 were repaid on the due date on time.

15. CONTINGENT LIABILITIES

(i) In addition to the litigations commenced by banks against certain subsidiaries of the Group as disclosed in note 13, there were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fee totalling approximately HK$222,218,000 (2015: HK$104,405,000). Based on the advice of the Group's in-house legal counsel, the Directors estimated the Group will likely be liable to pay HK$222,218,000 (2015: HK$70,317,000) for the settlement of the aforesaid construction fee. This amount had been provided and included in "trade and other payables".

(ii) During the year ended 31 December 2016, there was a litigation initiated by a government related entity claiming against a subsidiary and a related company of the Group, for immediate repayment of approximately HK$115,028,000. The Group recorded the aforesaid amounts in the consolidated statement of profit or loss as "Provision for loss on litigation" in "other net income/(loss)" for the year ended 31 December 2016 and the corresponding payables amount in the consolidated statement of financial position as "trade and other payables" as at 31 December 2016.

Other than the disclosure of above, as at the end of the reporting period, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 2016, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from the report issued by Moore Stephens CPA Limited, the Company's auditor, on the consolidated financial statements of the Group for the year ended 31 December 2016:

"We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties relating to going concern described in the basis for disclaimer of opinion section of our report and the significance of their possible cumulative effects on the consolidated financial statements, we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for disclaimer of opinion

Multiple uncertainties relating to going concern

On 26 March 2015, the Company received a notice from the family members of Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder of the Company, the Honorary Chairman of the Company, a Senior Advisor to the Board of Directors and a director of certain key operating subsidiaries of the Group, that a procuratorate has imposed measures on Mr. Zhu such that he has been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). Up to the date of this report, the Company has not received any update on the circumstances of this Incident or had any contact with Mr. Zhu.

The directors of the Company (the "Directors") are of the view that the Incident has not caused any material adverse impact on the operations of the Group. However, as described in note 2(b) to the consolidated financial statements, there are a number of other matters which the Directors have identified indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. These include the facts that the Group incurred a net loss of HK$2,342,270,000 and operating cash outflow of HK$106,583,000 for the year ended 31 December 2016 and as at 31 December 2016, the Group had net current liabilities of HK$5,618,616,000. Its total borrowings and finance lease liabilities amounted to HK$6,911,970,000, out of which HK$6,309,352,000 is due within 12 months of that date. In addition, as disclosed in notes 2(b) and note 29(i) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to certain bank borrowings during the year ended 31 December 2016 and as at 31 December 2016, with the aggregate amount of HK$3,792,684,000, which resulted in certain subsidiaries of the Group with open litigations as at 31 December 2016, with aggregate balances of HK$314,349,000, details of which are set out in note 29(iii) to the consolidated financial statements. Furthermore, during the year ended 31 December 2016, the Group also encountered delay in settlement of certain borrowings from banks. As at 31 December 2016, borrowings of HK$1,033,175,000 together with the interest, with the aggregate amount of HK$1,094,458,000, have been overdue and had not been settled by the Group.

The Directors have prepared the consolidated financial statements on a going concern basis, having taken into account the measures they have taken and plans to take to mitigate the liquidity pressure on the Group and to improve the Group's financial position, as disclosed in note 2(b) to the consolidated financial statements.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying amounts of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

Disagreement arising from non-compliance with International Accounting Standard 36 (IAS 36), "Impairment of assets" issued by the IASB

As disclosed in note 15 to the consolidated financial statements, an impairment assessment was carried out by the management of the Group on the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments with carrying amounts of HK$12,553,216,000, HK$2,663,201,000, HK$25,628,000, and HK$233,752,000, respectively. For assets which the management considers are likely to be recoverable through continuing use, the Group assessed the recoverable amount of each cash-generating unit ("CGU") to which these assets belong based on value-in-use calculations. These value-in-use calculations use cash flow projections based on the most recent financial forecasts approved by the board of directors based on their best estimates. The key assumptions are stated in note 15 to the consolidated financial statements.

As a result of the assessment, the management has assessed that the recoverable amounts of certain CGUs based on the estimated value-in-use calculation were lower than their carrying amounts as at 31 December 2016. Accordingly, provision for impairment losses on property, plant and equipment and lease prepayments of approximately HK$454,868,000 and HK$83,531,000 were recognised in the consolidated statement of profit or loss for the year ended 31 December 2016 for assets which the management considers are likely to be recoverable through continuing use.

In our opinion, the discount rates, one of the key assumptions, applied to arrive at present values of cash flows are too low as they do not adequately take into account the challenges in operating and financing activities that the Group faces recently. Therefore in our opinion, this impairment assessment is not in accordance with IAS 36. Accordingly, in our opinion, the discount rates applied had resulted in the recoverable amount of these assets being materially overstated.

Any deficit of recoverable amount compared to carrying amount would represent an impairment loss in accordance with IAS 36. However, in the absence of a discounted cash flow projection using an overall balanced set of assumptions, we are unable to quantify the amount of any additional impairment losses that should be recognised on these assets for the year ended 31 December 2016.

Recognition of any additional impairment losses against the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments would decrease the net assets of the Group as at 31 December 2016 and would increase the Group's loss for the year and affect the related notes disclosures in the consolidated financial statements.

In addition, as the property, plant and equipment, lease prepayments, intangible assets and non-current prepayments as stated above were held by various subsidiaries of the Company, any adjustment on the carrying amounts of these assets found to be necessary would also affect the carrying amounts of the Company's interests in subsidiaries and amounts due from subsidiaries which amounted to HK$7,940,573,000 as at 31 December 2016 as disclosed in note 41 and the amount of the Company's loss for the year then ended as disclosed in the Company's statement of changes in equity disclosed in note 35.

Even had there been no multiple material uncertainties relating to going concern as described above in the basis for disclaimer of opinion section which precluded us from expressing an opinion on the consolidated financial statements, our opinion would have been qualified for this disagreement.

Other matter

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2015 were issued by another auditor who also expressed a disclaimer of opinion and also with a disagreement arising from non-compliance with IAS 36 on those statements on 30 March 2016."

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Friday, 16 June 2017. The notice of the Annual General Meeting will be published and despatched to the shareholders of the Company in due course.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 13 June 2017 to Friday, 16 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Annual General Meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 12 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview (and Outlook)

According to the data published by the National Bureau of Statistics of China, Gross Domestic Product grew by 6.7% year-on-year during the Review Year, which indicated a reduced growth rate. Against the overall decrease in consumption desire, the entire catering market underwent turbulence. Hog prices experienced a substantial increase in the first half of the Review Year, followed by a plunge in the second half. Business operations in the pork industry were affected by instabilities in both the economic environment and the pork market. In addition, according to the statistics of slaughtering volume of national-scale hog slaughtering businesses at designated locations released in December 2016 by the Ministry of Agriculture of China, the slaughtering volume of national-scale hog slaughtering businesses at designated locations decreased by approximately 2.4% during the Review Year compared with that of 2015.

During the Review year, the Chinese government continued its efforts to manage the livestock and poultry slaughtering industries. On the other hand, in order to further improve the governance capacity and the protection level with regard to food safety, the Commission on Food Safety of the State Council issued on 27 April 2016 the Circular on Issuing the Key Work Arrangements on Food Safety in 2016, which introduced measures and regulations to address illegal behavior, such as the use of "Clenbuterol" in livestock production, the use of antibiotics in livestock, poultry and aquatic production, and the acquisition and slaughter of livestock and poultry died of disease, in an attempt to regulate production and operations. The Board believes that, benefited from the Chinese government's immense effort in promoting relevant policies, for example on food safety and against substandard slaughterhouses, the Group will continue to leverage its core competitive edge in resources, strategies and branding, and seize the opportunities arising from various challenges to facilitate smooth development of business.

Business Review

During the Review Year, hog prices fluctuated significantly. First slowly rose to reach their record high, and experienced a slow decline followed by an accelerated decline. In mid-October, hog prices reached their record low of the year, and subsequently picked up slightly. Facing the challenges posed by the instabilities, the Group used its best endeavours in taking all practical and prudent measures to reduce its capital expenditure, optimize the existing asset structure, strengthen its brand image and market positioning, and expand sales channels and networks, in order to maintain business stability.

Product Quality and Research and Development

During the Review Year, Yurun Food adhered to its operation philosophy of "you trust because we care" and led the industry with technical research and development, and at the same time ensured product quality by adopting advanced production processes and technologies. To strengthen product quality management, Yurun Food implemented a product traceability system, in order to achieve the "traceable sources, trackable destinations, and accountable responsibilities" philosophy and to assure the product quality.

Yurun Food ranked top in terms of combined market shares of low temperature meat products ("LTMP") and chilled pork in China, successively topping the LTMP market 18 years in a row and the chilled pork market four years in a row in the Annual Conference of the Development of Consumer Markets and the Press Conference of Product Sales Statistics of the PRC Market (中國消費市場發展年會暨商品銷售統計新聞發佈會) held in March 2016. "Yurun" brand was also awarded "Contribution Award of the China National Food Industry" (全國食品工業品牌強國貢獻獎) by the 25th Chinese Food Expo Committee (第二十五屆中國食品博覽會組織委員會) in December 2016.

The Group will continue to ensure product quality and focus on the research and development of products which are well received by the market, thereby maintaining its competitive advantages.

Sales and Distribution

Chilled pork and LTMP, which are the Group's products with higher added value, remained one of the key drivers to the overall business development of the Group during the Review Year. In 2016, the sales of chilled pork of the Group was HK$13.669 billion (2015: HK$16.134 billion), representing a decrease of 15.3% over the previous year, accounting for approximately 81% (2015: 78%) of the total revenue of the Group prior to inter-segment eliminations and approximately 93% (2015: 89%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.886 billion (2015: HK$2.231 billion), representing a decrease of 15.5% over the previous year, accounting for approximately 11% (2015: 11%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2015: 91%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

The Group expanded rapidly in the previous years but failed to align with the macro environment. This led to an increase in capital expenditure and borrowing costs and intensified operating pressure. In light of this, the Group adjusted its expansion pace based on market changes and the business conditions of the Group. The Group reviewed the functional positioning of its factories and optimized the existing resource structure, for example by integrating certain outlets further away from the raw materials markets and the consumer markets, in order to fully utilize the factories while cutting unnecessary costs. A long-term increase in the capacity utilization rate was thus expected.

During the Review Year, the Group's upstream slaughtering capacity was 55.75 million heads per year as at 31 December 2016, which was 0.6 million heads less than that as at 31 December 2015, owing to the disposal of one of the Group's subsidiaries.

As at 31 December 2016, the production capacity of the downstream processed meat segment of the Group was approximately 312,000 tons per year, being the same as that as at 31 December 2015.

Financial Review and Key Performance Indicators

The Group recorded revenue of HK$16.702 billion in 2016, representing a decrease of 17.2% from HK$20.165 billion of the previous year. Loss arising from principal business, being loss attributable to equity holders excluding government subsidies, gains or losses on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for an one-off loss on litigation of the Group, recorded a loss of HK$956 million (2015: HK$1.368 billion), representing a reduction in loss of approximately 30.1% from the previous year. Basic and diluted loss per share was HK$1.285, representing a reduction in loss of 21.3% from HK$1.633 of the previous year.

During the Review Year, despite the provision of HK$1.257 billion (2015: HK$1.278 billion) made by the Group for impairment losses on non-current assets as well as operating losses and other one-off losses, the loss attributable to equity holders decreased by 21.3% from HK$2.976 billion in 2015 to HK$2.342 billion in 2016.

The Board and the management assessed the development, the performance or the position of the business of the Group based on the following key performance indicators.

Impairment Losses on Non-Current Assets

Amidst the reduced economic growth of China and the business operation pressure faced by the Group during the Review Year, the Board performed impairment assessment on relevant non-current assets according to the requirement of "International Accounting Standard 36 – Impairment of Assets".

During the assessment process, in particular the cash flow projection model which covers a five-year period, many assumptions related to the future, including but not limited to future sales volume, gross profit margin, expenses ratio and discount rate, were introduced. Any change in these relevant assumptions will affect the recoverable amount of the relevant assets.

According to the relevant accounting standards, the Directors adopted the cash flow projection of cash-generating units to assess the amount recoverable from units with continuing operation and engaged an external asset appraisal firm with professional qualification in the PRC to assess the impairment. The Directors and the management, with their professional experience in and understanding of the industry and considering factors such as the operating statistics of the Group, the industry's future development and the macro economy of China, believe that the operations of the Group will improve gradually in the next five years. This forms the basis and assumption of the cash flow projection model as at 31 December 2016. In addition, the Board also referred to the recommendations set out in the relevant standards and took into account the weighted average cost of capital and specific risks of the Company in their calculation of the discount rate for the cash flow projection. The discount rate was also reviewed by an external professional valuers which considered that the discount rates used by the Group is appropriate. The Board believes that the calculation of discount rate adequately reflects the underlying risks of the cash flow projection model.

Based on the assessment results, provision for impairment losses in respect of properties, plants and equipment, lease prepayments and goodwill of the Group of approximately HK$1.257 billion was recognized by the Group as at 31 December 2016 (2015: HK$1.278 billion).

The Board reiterates that the Group performed the impairment assessment on relevant non-current assets according to the requirement of "International Accounting Standard 36 – Impairment of Assets". The Directors believe that the assumptions used in the assessment are reasonable, adequate and prudent. Other than the factors relating to the macro economy, the country and the industry, the Group also considered uncertain risks relating to the Group itself to ensure such risks, albeit difficult to quantify, can be specifically and reasonably reflected in the cash flow projection model. In view of this, the Directors and the management of the Company believe that the discount rate relied upon and the calculations in the cash flow projection model are objective, reasonable and appropriate.

Revenue

Chilled and Frozen Pork

During the Review Year, the slaughtering volume of the Group was approximately 6.63 million heads, representing a decrease of approximately 29.7% over the previous year. As the Group aimed at maintaining profit when the overall consumption of pork declined, an appropriate compromise was made in respect of the growth of slaughtering volume.

In 2016, the Group's total sales from upstream business prior to inter-segment eliminations decreased by 18.7% to HK$14.743 billion (2015: HK$18.145 billion) due to the decrease in slaughtering volume. Sales of chilled pork decreased by 15.3% to HK$13.669 billion (2015: HK$16.134 billion), accounting for approximately 81% (2015: 78%) and approximately 93% (2015: 89%) of the total revenue prior to inter-segment eliminations of the Group and the total revenue of the upstream business of the Group respectively. Sales of frozen pork decreased by 46.6% to HK$1.074 billion (2015: HK$2.011 billion), accounting for approximately 7% (2015: 11%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Year, the Group's sales of processed meat products prior to inter-segment eliminations was HK$2.105 billion (2015: HK$2.444 billion), representing a decrease of 13.9% over the previous year.

Specifically, the revenue from LTMP was HK$1.886 billion, representing a decrease of 15.5% from HK$2.231 billion of the previous year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 90% (2015: 91%) of the total revenue of the processed meat segment. The revenue from high temperature meat products ("HTMP") was HK$219 million (2015: HK$213 million), representing an increase of 3.0% over the previous year, accounting for approximately 10% (2015: 9%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 10.3% from HK$642 million in 2015 to HK$708 million in 2016. Overall gross profit margin increased by 1.0 percentage point to 4.2% from 3.2% of the previous year. During the Review Year, the production costs of the Group increased along with the significantly rising hog price. The Group therefore adjusted sales channels as appropriate and reduced sales through the relatively low margin channel, in an attempt to increase profit.

In respect of the upstream business, the gross profit margins of chilled pork and frozen pork were 2.5% and -6.5% respectively (2015: 2.0% and -4.9% respectively). The overall gross profit margin of the upstream segment was 1.8%, representing an increase of 0.6 percentage point from 1.2% of the previous year.

In respect of the downstream processed meat products, the gross profit margin of LTMP was 19.4%, representing an increase of 1.7 percentage points from 17.7% of the previous year. Since the Group adjusted the product mix of HTMP and purchased certain raw materials as stock at a lower price in the second half of 2015, which lowered the production cost, the gross profit margin of HTMP significantly increased by 12.4 percentage points from 21.4% of the previous year to 33.8%. The overall gross profit margin of the downstream segment was 20.9%, representing an increase of 2.8 percentage points from 18.1% of the previous year.

Other Net Income

During the Review Year, other net income of the Group was HK$25.74 million (2015: net loss of HK$180 million). Other net income during the Review Year was mainly attributable to gains from disposal of a subsidiary, lease prepayments and property, plant and equipment, deducted by non-recurring losses including impairment losses on assets held for sale, as well as provision for loss on litigation.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$2.682 billion, representing a decrease of 10.3% from HK$2.992 billion of the previous year. Such decrease was mainly attributable to decrease in transportation costs in line with decrease in sales volume. In addition, the Group cut certain positions to save costs, and salary and related staff costs thereby reduced. Other operating expenses included impairment losses on certain assets in the amount of approximately HK$1.257 billion (2015: HK$1.278 billion). Operating expenses excluding impairment losses represented 8.5% (2015: 8.5%) of the Group's revenue.

Results of Operating Activities

Operating loss of the Group during the Review Year was HK$1.949 billion (2015: HK$2.530 billion), representing a significant reduction in loss of 23.0% from the previous year.

Finance Costs

During the Review Year, net finance costs of the Group were HK$404 million (2015: HK$417 million), representing a decrease of 3.1% from the previous year. Net finance costs decreased from the previous year mainly due to decrease in average bank and other borrowings by approximately 8.6% and accordingly decrease in interest expenses for the current year.

Income Tax

Income tax credit for the Review Year was approximately HK$10.76 million (2015: expense of HK$29.86 million), mainly attributable to the reversal of temporary differences of deferred tax.

Loss Attributable to the Equity Holders of the Company

Taking into account all of the above factors, loss attributable to the equity holders of the Company during the Review Year was HK$2.342 billion (2015: HK$2.976 billion), representing a reduction in loss of 21.3% from the previous year. Loss arising from principal business, being loss attributable to equity holders excluding government subsidies, gains or losses on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for one-off loss on litigation of the Group, recorded a loss of HK$956 million (2015: HK$1.368 billion), representing a reduction in loss of approximately 30.1% from the previous year.

Financial Resources

As at 31 December 2016, the Group's cash balance together with time deposits, pledged deposits and restricted bank deposits were HK$347 million, representing a decrease of HK$72 million from HK$419 million as at 31 December 2015. Approximately 82% (31 December 2015: 92%) of the above-mentioned financial resources was denominated in Hong Kong Dollars or RMB, and approximately 17% (31 December 2015: 7%) was denominated in USD, while the remaining amount was denominated in other currencies.

As at 31 December 2016, the Group had outstanding bank loans of HK$6.783 billion, representing a decrease of HK$537 million from HK$7.320 billion (including the domestic medium term notes ("MTN") and the Short Term Financing Notes issued in the PRC by Nanjing Yurun Food Co., Ltd. ("Nanjing Yurun"), a wholly-owned subsidiary of the Company) as at 31 December 2015, of which bank loans and other loans of HK$6.309 billion (31 December 2015: bank loans of HK$4.775 billion, MTN of HK$1.192 billion and Short Term Financing Notes of HK$597 million) are repayable within one year and are expected by the management to be renewed upon maturity. During the Review Year, Nanjing Yurun fully repaid the principal amount of the MTN and Short Term Financing Notes and the interest thereon. All borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2015. As at 31 December 2016, the Group's fixed-rate debt ratio was 81.4% (31 December 2015: 60.7%).

Net cash outflow of the Group during the Review Year was mainly used for daily operations, payment of payables for construction in progress and repayments of borrowings. The Group has unutilized credit facilities and the bank loans are expected to be renewed upon maturity 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 61.2% to HK$138 million during the Review Year from HK$356 million of the previous year.

Breach of Loan Agreements

Nanjing Yurun failed to repay the Short Term Financing Notes with a principal amount of RMB500 million and the second tranche of MTN with a principal amount of RMB1 billion on 17 March 2016 and 13 May 2016 respectively. Such delay in repayment may have breached the cross-default provisions of certain borrowings entered into by the Group. However, the above Short Term Financing Notes and MTN were fully repaid on 31 March 2016 and 16 May 2016, respectively.

For details, please refer to the announcements made by the Company on 9 March, 21 March, 30 March, 6 May, 13 May, 16 May and 17 May 2016 respectively.

Certain bank loan facilities of the Group are subject to certain covenants on financial gearing and capital requirements as commonly required under lending arrangements with financial institutions. As at 31 December 2016, the Group could not fulfil the covenants in respect of certain loans with an aggregate amount of HK$3.793 billion (31 December 2015: HK$2.201 billion), of which (i) HK$143 million (31 December 2015: HK$61 million), being an aggregate amount of certain loans, were long-term loans re-classified as current liabilities in the consolidated statement of financial position; and (ii) out of the outstanding loan of HK$1.033 billion (31 December 2015: HK$291 million), HK$776 million (31 December 2015: HK$104 million) were due on or before 31 December 2016 and not yet renewed or repaid at the end of the reporting period. As at the date of this announcement, the aforesaid bank loans were not yet renewed (31 December 2015: HK$17.90 million) and bank loans of HK$0.699 million (31 December 2015: HK$5.74 million) were repaid.

The Group has been negotiating with the relevant banks to renew the relevant loans. It, however, takes time for the Group to go through the negotiation process with the banks to renew or extend loans. Currently, the Group is in active communication with the banks and has reached consensus to extend certain of the above-mentioned loans to year 2017 and after. Communications in respect of the remaining loans progress well. The Board believes that the delay in repayment has no material impact on the operation of the Group's business.

Assets and Liabilities

As at 31 December 2016, the total assets and total liabilities of the Group were HK$19.310 billion (31 December 2015: HK$22.509 billion) and HK$9.919 billion (31 December 2015: HK$10.178 billion) respectively, representing a decrease of HK$3.199 billion and HK$259 million as compared with the total assets and liabilities as at 31 December 2015 respectively.

As at 31 December 2016, the property, plant and equipment of the Group amounted to HK$12.553 billion (31 December 2015: HK$14.656 billion), representing a decrease of HK$2.103 billion as compared with that as at 31 December 2015. The main reason of such decrease was that the Group recognized impairment losses of approximately HK$948 million (2015: HK$1.025 billion) in respect of certain assets after the impairment assessment in view of the economic slowdown, economic restructuring and increasingly competitive business environment in China during the Review Year.

Lease prepayments of the Group as at 31 December 2016 amounted to HK$2.663 billion (31 December 2015: HK$3.059 billion). This represented the purchase cost of land use rights which was amortized on a straight-line basis over the respective periods of the rights. The lease prepayments decreased by HK$396 million as compared with that as at 31 December 2015 mainly due to impairment loss of approximately HK$221 million (2015: HK$253 million) was recognised during the Review Year.

Non-current prepayments and receivables of the Group mainly represented the prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2016, it amounted to HK$234 million (31 December 2015: HK$215 million). These assets have not started to depreciate nor amortize yet.

During the Review Year, the Group recorded a net loss of HK$2.342 billion (2015: HK$2.977 billion) and net cash used in operating activities of HK$107 million (2015: HK$187 million). As at 31 December 2016, the net current liabilities of the Group were HK$5.619 billion (31 December 2015: HK$4.742 billion). In addition, as at 31 December 2016, the Group could not fulfil certain bank convenants as mentioned above and certain subsidiaries of the Group are also party to various litigations. The Directors believe that the current bank loans which are due within one year are expected to be renewed upon maturity. In addition, the Group will implement comprehensive policies to monitor cash flows through cutting costs and capital expenditure, proactively take measures to accelerate the collections of outstanding receivables, seek potential strategic investors and identify buyers for certain non-core assets to improve the cash flow. In view of these, the Directors believe that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the Review Year.

As at 31 December 2016, equity attributable to equity holders of the Company was HK$9.343 billion in total, representing a decrease of HK$2.938 billion as compared with HK$12.281 billion as at 31 December 2015.

As at 31 December 2016, the gearing ratio (total debt represented by the sum of bank and other loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 42.5%, representing an increase of 4.7 percentage points as compared with 37.8% as at 31 December 2015. As at 31 December 2016, after excluding cash in bank, time deposits and pledged deposits, the net gearing ratio was 40.4% (31 December 2015: 35.7%).

Charges on Assets

As at 31 December 2016, certain properties, plants and equipment and construction in progress of the Group with a carrying amount of approximately HK$2.435 billion (31 December 2015: HK$1.937 billion), an investment property of the Group with a carrying amount of approximately HK$141 million (31 December 2015: Nil), lease prepayments of the Group with a carrying amount of approximately HK$1.201 billion (31 December 2015: HK$1.148 billion) and certain trade receivables of the Group with a carrying amount of approximately HK$26 million (31 December 2015: Nil) were pledged against certain bank loans with a total amount of approximately HK$3.378 billion (31 December 2015: HK$2.990 billion).

As at 31 December 2016, no bank loans of the Group were secured by pledged deposits denominated in RMB (31 December 2015: HK$3 million).

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

Having considered the current operation and cash flow of the Group, the Board will take a more prudent approach on capital expenditure plan for 2017. The preliminary capital expenditure plan for 2017 expected to be approved by the Board is approximately RMB100 million, which will be mainly used in completion of the construction in progress. As at the date of this announcement, the budget and the expenditure plan are yet to be finalized and the Group has not identified any particular target or opportunity at this stage.

Save as disclosed herein, the Group did not hold any other significant investment nor have any substantial acquisition and disposal of subsidiaries or associated companies during the Review Year. As at the date of this announcement, the Group has no plan to make any significant investment in or acquisition of capital assets.

Contingent Liabilities

As at 31 December 2016, there were outstanding litigations commenced by banks in China against certain subsidiaries of the Group demanding them to secure the repayment of the outstanding bank loans of HK$314 million (31 December 2015: HK$101 million) or otherwise assets of equivalent amount immediately. As at 31 December 2016, certain assets of the Group with a carrying amount of HK$356 million (31 December 2015: HK$88 million) were frozen by Chinese courts, including the restricted bank deposits with an amount of HK$46.10 million (31 December 2015: HK$Nil) as disclosed in the Consolidated Financial Statements. The Group is discussing with the banks to resolve such litigations. Subsequent to 31 December 2016 and up to the date of this announcement, the Group mutually agreed with certain banks that the repayment dates of certain outstanding loans of HK$289 million which were due on or before 31 December 2016 were extended to year 2017 and after. The above mentioned litigations have already been closed.

There were outstanding litigations initiated by several constructors against certain subsidiaries of the Group claiming an aggregate construction fee of approximately HK$222 million (31 December 2015: HK$104 million). According to the advice of the Group's in-house legal counsel, the Directors estimated that the Group will be liable to pay approximately HK$222 million (31 December 2015: HK$70 million) for the settlement of the aforesaid construction fee and provision for such amounts had been made accordingly.

During the Review Year, there was a litigation initiated by a government related entity claiming against a subsidiary and a related company of the Group for certain assets with a total amount of approximately HK$115 million. As at 31 December 2016, the Group made full provision of the abovesaid amounts for such claim accordingly.

In respect of the progress of the above litigation, the Company will make further announcement(s) in due course in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as and when required.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in USD, 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 31 December 2016, the Group had approximately 12,000 (31 December 2015: approximately 16,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$683 million, accounting for 4.1% of the revenue of the Group (2015: HK$884 million, accounting for 4.4% of the revenue).

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

Environmental Protection and Performance

As a responsible corporation, the Group is committed to promoting environmental protection and makes best effort to minimize any environmental impact of its existing production and business activities. During the Review Year, the Group implemented measures to reduce waste generated from its production process. In future, the Group aims at minimizing waste as one of its operation objectives and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

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 set out in Appendix 14 to the Listing Rules throughout the Review Year.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules 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 enquiry of all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the Review Year.

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 Year.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters including the review of the annual results for the Review Year.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and of the Company (www.yurun.com.hk). The Company's annual report for the year ended 31 December 2016 containing all the financial and other related information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
Yu Zhangli
Chairman

Hong Kong, 24 March 2017

As at the date of this announcement, the executive directors of the Company are Yu Zhangli, Li Shibao, Sun Tiexin, Yang Linwei and Yao Guozhong; the independent non-executive directors are Gao Hui, Chen Jianguo and Miao Yelian.