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 2017

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 2017 (the "Review Year") together with the comparative figures of the corresponding period in 2016 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	**2017** **HK\$'000**	2016 *HK\$'000*
Revenue	4	**12,057,239**	16,702,103
Cost of sales		**(11,333,870)**	(15,994,270)
Gross profit		**723,369**	707,833
Other net (loss)/income	5	**(370,790)**	25,737
Distribution expenses		**(568,975)**	(644,103)
Administrative and other operating expenses		**(1,424,858)**	(2,038,392)
Results from operating activities		**(1,641,254)**	(1,948,925)
Finance income		**3,298**	3,908
Finance costs		**(267,116)**	(408,017)
Net finance costs		**(263,818)**	(404,109)
Loss before income tax	6	**(1,905,072)**	(2,353,034)
Income tax (expense)/credit	7	**(9,973)**	10,764
Loss for the year		**(1,915,045)**	(2,342,270)
Attributable to:			
Equity holders of the Company		**(1,915,101)**	(2,341,865)
Non-controlling interests		**56**	(405)
Loss for the year		**(1,915,045)**	(2,342,270)
Loss per share			
Basic and diluted	9	**HK\$(1.051)**	HK\$(1.285)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** *HK$'000*	2016 *HK$'000*
Loss for the year		**(1,915,045)**	(2,342,270)
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		**447,514**	(680,275)
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries/deconsolidation of a deemed subsidiary		**(15,042)**	4,955
		432,472	(675,320)
Total comprehensive income for the year		**(1,482,573)**	(3,017,590)
Attributable to:			
Equity holders of the Company		**(1,485,974)**	(3,013,949)
Non-controlling interests		**3,401**	(3,641)
Total comprehensive income for the year		**(1,482,573)**	(3,017,590)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Note	**2017** **HK$'000**	2016 *HK$'000*
Non-current assets			
Property, plant and equipment		**12,394,914**	12,553,216
Investment properties		**211,395**	204,096
Lease prepayments		**2,441,581**	2,595,284
Goodwill		**–**	–
Intangible assets		**18,283**	25,628
Non-current prepayments and other receivables		**1,114,729**	233,752
Deferred tax assets		**–**	16
		16,180,902	15,611,992
Current assets			
Inventories		**663,733**	642,780
Other investment		**–**	939
Current portion of lease prepayments		**74,467**	67,917
Trade and other receivables	*11*	**1,980,304**	2,617,132
Income tax recoverable		**2,749**	2,590
Restricted bank deposits		**53,207**	46,103
Pledged deposits		**25**	4,356
Time deposits		**–**	4,472
Cash and cash equivalents		**218,212**	291,868
Assets held for sale		**–**	19,547
		2,992,697	3,697,704
Current liabilities			
Bank and other loans	*13*	**7,214,335**	6,308,910
Finance lease liabilities		**492**	442
Trade and other payables	*12*	**3,682,396**	2,992,397
Income tax payable		**7,438**	7,241
Liabilities held for sale		**–**	7,330
		10,904,661	9,316,320
Net current liabilities		**(7,911,964)**	(5,618,616)
Total assets less current liabilities		**8,268,938**	9,993,376

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Bank loans	*13*	**217,538**	474,003
Finance lease liabilities		**131,870**	128,615
Deferred tax liabilities		**6,982**	–
		356,390	602,618
NET ASSETS		**7,912,548**	9,390,758
EQUITY			
Share capital		**182,276**	182,276
Reserves		**7,679,424**	9,160,684
Total equity attributable to equity holders of the Company		**7,861,700**	9,342,960
Non-controlling interests		**50,848**	47,798
TOTAL EQUITY		**7,912,548**	9,390,758

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 2017 as set out in this preliminary announcement have been agreed by the Company's auditor, Moore Stephens CPA Limited ("Moore Stephens"), Certified Public Accountants, to the amounts as set out in the 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 in the People's Republic of China (the "PRC") 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 announcement, neither the Company nor any of its subsidiaries had 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 has 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 2017, the Group's gross profit amounted to HK$723,369,000 (2016: HK$707,833,000). The Group recorded a net loss of HK$1,915,045,000 (2016: HK$2,342,270,000) and operating cash outflow of HK$355,143,000 (2016: HK$106,583,000) for the year ended 31 December 2017. As at 31 December 2017, the Group had net current liabilities of HK$7,911,964,000 (2016: HK$5,618,616,000). Its total bank and other loans and finance lease liabilities amounted to HK$7,564,235,000 (2016: HK$6,911,970,000), out of which HK$7,214,827,000 (2016: HK$6,309,352,000) is due within 12 months of that date. As further disclosed in note 13, as at 31 December 2017, the Group could not fulfill covenants imposed by banks of certain bank loans with an aggregate amount of HK$5,915,854,000 (2016: HK$3,792,684,000), of which HK$1,845,503,000 (2016: HK$776,052,000) were due on or before 31 December 2017. Besides, certain subsidiaries of the Group are also parties to various litigations (note 13 and note 14). In addition, the Group recognised the impairment losses with an aggregate amount of HK$602,890,000 (2016: HK$629,763,000) on property, plant and equipment and lease prepayments which are likely to be recovered through sales transaction rather than through continuing use in the operations of the Group for the year ended 31 December 2017. 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. The audit committee of the Company has no disagreement with the Directors on the above position and the 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 ("IASB") 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 consolidated financial statements:

- Amendments to IAS 7 Disclosure initiative
- Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses
- Amendments to IFRS 12 Disclosure of interest in other entities

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 7 Disclosure initiative

The amendments to IAS 7 require an entity to make disclosures that aim to enable users of financial statements to evaluate changes in liabilities arising from financing activities. Reconciliations of various types of the Group's financing liabilities are disclosed in the consolidated financial statements. Other than such additional disclosures, the application of the amendments has not had any material effect on the consolidated financial statements.

Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The Directors do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

Amendment to IFRS 12 Disclosure of interest in other entities

The amendment clarifies that except as described in specific paragraph B17, the disclosure requirements in IFRS 12 with respect to interests in entities classified as held for sale or discontinued operations is relevant to interest in other entities, regardless of whether they are with the scope of IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations.* The Directors do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

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 2017 and 2016 is set out below:

	Chilled and frozen meat		**Processed meat products**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**9,966,812**	14,610,918	**2,090,427**	2,091,185	**12,057,239**	16,702,103
Inter-segment revenue	**195,514**	132,432	**44,022**	14,300	**239,536**	146,732
Reportable segment revenue	**10,162,326**	14,743,350	**2,134,449**	2,105,485	**12,296,775**	16,848,835
Depreciation and amortisation	**(330,821)**	(366,334)	**(95,268)**	(97,540)	**(426,089)**	(463,874)
Impairment losses on property, plant and equipment and lease prepayments	**(530,203)**	(851,350)	**(144,288)**	(316,812)	**(674,491)**	(1,168,162)
Impairment loss on goodwill	**–**	(88,734)	**–**	–	**–**	(88,734)
(Loss)/gain on disposal of property, plant and equipment and lease prepayments	**(140,056)**	42,548	**707**	(12,860)	**(139,349)**	29,688
(Provision for)/reversal of impairment losses on trade and other receivables, net	**(7,267)**	(1,360)	**984**	(33,279)	**(6,283)**	(34,639)
Write-off of property, plant and equipment and lease prepayments	**(157,277)**	–	**(4,668)**	–	**(161,945)**	–
Government subsidies	**13,772**	29,733	**33,078**	5,883	**46,850**	35,616
Reportable segment loss before income tax	**(1,456,887)**	(1,281,034)	**(100,819)**	(659,579)	**(1,557,706)**	(1,940,613)
Income tax (expense)/ credit	**(817)**	(6,766)	**(7,398)**	18,861	**(8,215)**	12,095

(b) Reconciliations of reportable segment revenue and loss

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Total revenue from reportable segments	**12,296,775**	16,848,835
Elimination of inter-segment revenue	**(239,536)**	(146,732)
Consolidated revenue	**12,057,239**	16,702,103
Loss		
Total reportable segment loss before income tax	**(1,557,706)**	(1,940,613)
Elimination of inter-segment profit	**7,457**	2,716
	(1,550,249)	(1,937,897)
(Loss)/gain on disposal of subsidiaries/deconsolidation of a deemed subsidiary	**(13,180)**	62,890
Loss on disposal of other investment	**(748)**	–
Net finance costs	**(263,818)**	(404,109)
Income tax (expense)/credit	**(9,973)**	10,764
Unallocated head office and corporate expenses	**(77,077)**	(73,918)
Consolidated loss for the year	**(1,915,045)**	(2,342,270)

(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 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 2017 and 2016, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

5. OTHER NET (LOSS)/INCOME

	2017	2016
	HK$'000	*HK$'000*
Government subsidies	**46,850**	35,616
Provision for losses on litigations *(Note 14(ii))*	**(173,823)**	(115,028)
(Loss)/gain on disposal of subsidiaries/deconsolidation of a deemed subsidiary *(note (i))*	**(13,180)**	62,890
(Loss)/gain on disposal of lease prepayments	**(39,313)**	15,311
(Loss)/gain on disposal of property, plant and equipment	**(100,036)**	23,260
Loss on disposal of other investment	**(748)**	–
Write-off of property, plant and equipment	**(44,926)**	–
Write-off of lease prepayments	**(117,019)**	–
Impairment losses on assets held for sale	**–**	(80,726)
Rental income	**33,592**	28,456
Sales of scrap	**1,577**	3,359
Sundry income	**36,236**	52,599
	(370,790)	25,737

Note:

(i) The Group disposed of its entire equity interest in a wholly-owned subsidiary in chilled and frozen meat segment at a total consideration of HK$14,954,000. A loss on disposal of the subsidiary amounting to HK$842,000 was recognised during the year ended 31 December 2017.

In February 2017, the Group terminated the sub-contracting arrangement over a deemed subsidiary in chilled and frozen meat segment which resulted in a loss of control over this deemed subsidiary. A loss on deconsolidation of a deemed subsidiary amounting to HK$12,338,000 was recognised during the year ended 31 December 2017.

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.

6. LOSS BEFORE INCOME TAX

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

	2017	2016
	HK$'000	*HK$'000*
Cost of inventories	**11,333,870**	15,994,270
Depreciation	**362,851**	399,074
Amortisation of lease prepayments	**63,257**	67,568
Impairment losses on property, plant and equipment	**545,030**	947,509
Impairment losses on lease prepayments	**129,461**	220,653
Impairment loss on goodwill	**–**	88,734
Interest on bank and other loans and lease obligations, net of capitalised interest expense	**349,183**	340,216
Interest income from bank deposits	**(3,298)**	(7,263)

7. INCOME TAX EXPENSE/(CREDIT)

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

	2017	2016
	HK$'000	*HK$'000*
Current tax expense		
Current year	**2,854**	6,048
Under-provision in respect of prior years	**256**	3,086
	3,110	9,134
Deferred tax expense/(credit)		
Origination/(reversal) of temporary differences	**6,863**	(19,898)
Income tax expense/(credit) in the consolidated statement of profit or loss	**9,973**	(10,764)

(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 2017 and 2016.

(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 2017 and 2016, 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 2017 and 2016.

(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 2017 (2016: HK$Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2017 is based on the loss attributable to equity holders of the Company for the year of HK$1,915,101,000 (2016: HK$2,341,865,000) and the weighted average number of 1,822,756,000 (2016: 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 years ended 31 December 2017 and 2016 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 2017 and 2016.

11. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**460,011**	424,922
Less: Impairment	**(36,351)**	(30,374)
Trade receivables, net	**423,660**	394,548
Bills receivable	**1,029**	22
Value-added tax recoverable	**1,297,411**	1,979,951
Deposits and prepayments	**136,534**	168,255
Others	**121,670**	74,356
	1,980,304	2,617,132

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:

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**174,607**	211,172
31 days to 90 days	**161,920**	106,553
91 days to 180 days	**57,794**	40,810
Over 180 days	**29,339**	36,013
	423,660	394,548

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

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**741,837**	794,304
Receipts in advance	**210,402**	278,495
Deposits from customers	**129,507**	111,297
Salary and welfare payables	**87,618**	60,424
Value-added tax payable	**7,726**	5,020
Payables for acquisitions of property, plant and equipment	**699,637**	574,470
Provision for losses on litigations	**297,819**	110,218
Interest payables	**542,785**	219,129
Other payables and accruals	**965,065**	839,040
	3,682,396	2,992,397

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**502,871**	566,339
31 days to 90 days	**122,676**	76,561
91 days to 180 days	**59,236**	19,513
Over 180 days	**57,054**	131,891
	741,837	794,304

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 2017, the Group could not fulfill covenants imposed by certain banks on certain loans with an aggregate amount of HK$5,915,854,000 (2016: HK$3,792,684,000). Included in this amount are (i) loans of an aggregate amount of HK$119,632,000 (2016: HK$142,583,000) which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position; and (ii) an outstanding loan balance of HK$1,845,503,000 (2016: HK$776,052,000) which were due on or before 31 December 2017 but were not yet renewed 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 at the end of the reporting period. As at the date of this announcement, the aforesaid bank loans were not yet renewed and bank loans of HK$46,032,000 were repaid.

At 31 December 2017, there were outstanding litigations commenced by banks in the PRC against certain subsidiaries of the Group requesting such subsidiaries to repay the outstanding bank loans of HK$1,481,340,000 (2016: HK$314,349,000) or to secure the repayment with assets of equivalent amount immediately. Certain property, plant and equipment of the Group with carrying value of HK$172,825,000 (2016: HK$356,225,000) have been frozen by the court in the PRC as of 31 December 2017, in addition to the freezing of restricted bank deposits of HK$46,618,000 (2016: HK$46,103,000) in relation to these litigations. The Group is negotiating with the banks to settle these litigations. Subsequent to 31 December 2017 and up to the date of this announcement, included in the subsequent repayment of bank loans of HK$46,032,000 as mentioned above, amounted to HK$10,045,000 were repayment of bank loans under litigations, and the corresponding frozen property, plant and equipment and restricted bank deposit of HK$49,753,000 and HK$36,731,000 respectively were released.

14. CONTINGENT LIABILITIES

(i) In addition to the litigations commenced by banks against 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 fees, together with the late penalties, totaling approximately HK$248,531,000 (2016: HK$222,218,000). Based on the advice of the Group's in-house legal counsel, the Directors estimated the Group will likely be liable to pay a total of approximately HK$167,543,000 (2016: HK$222,218,000) ("Provision Amount") for the aforesaid construction fees and corresponding late penalties, which had been provided and included in "trade and other payables" as at 31 December 2017. During the year ended 31 December 2017, pursuant to the judgements made by the courts in the PRC in relation to certain of these litigations, the Group was ordered to make immediate repayment of construction fees payables of approximately HK$62,027,000 (2016: HK$32,280,000) and corresponding late penalties of approximately HK$27,499,000 (2016: HK$Nil). These amounts were included in the Provision Amount already and the settlement had not yet been made at the end of the reporting period. Up to the date of this announcement, the remaining litigation claims with an aggregate amount of approximately HK$159,005,000 (2016: HK$189,938,000) are still in process, of which an aggregate amount of HK$78,017,000 (2016: HK$189,938,000) had been included in the Provision Amount as at 31 December 2017. In the opinion of the Directors, no further provision for litigation was required to be made for the year ended 31 December 2017.

(ii) During the year ended 31 December 2017, there were litigations initiated by municipal people's governments in the PRC claiming against subsidiaries and a related company of the Group in view of the suspension of the development in certain areas, for immediate cash repayment of approximately HK$173,823,000 (2016: HK$115,028,000) and return of certain property, plant and equipment and lease prepayments with carrying amounts approximate to HK$44,926,000 (2016: HK$Nil) and HK$101,224,000 (2016: HK$Nil) as at 31 December 2017, respectively. The Group recognised losses of HK$173,823,000 (2016: HK$115,028,000) as "provision for losses on litigations", HK$101,224,000 (2016: HK$Nil) as "write-off of lease prepayments" and HK$44,926,000 (2016: HK$Nil) as "write-off of property, plant and equipment" in "other net (loss)/income" in the consolidated statement of profit or loss for the year ended 31 December 2017.

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 management of 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 2017, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business of the Group. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained with reasonable certainty 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 or results 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 2017:

"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 2017 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 of the Company and a director of certain key operating subsidiaries of the Group, that a procuratorate in the People's Republic of China (the "PRC") had imposed measures on Mr. Zhu such that he had been required to stay at a designated residence in China since 23 March 2015 (the "Incident"). Up to the date of this report, neither the Company nor any of its subsidiaries had 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 identified by the Directors which indicate the existence of material uncertainties which may cast significant doubts on the Group's ability to continue as a going concern. These include the facts that the Group incurred a net loss of HK$1,915,045,000 and operating cash outflow of HK$355,143,000 for the year ended 31 December 2017 and as at 31 December 2017, the Group had net current liabilities of HK$7,911,964,000. Its total borrowings and finance lease liabilities amounted to HK$7,564,235,000 as at 31 December 2017, out of which HK$7,214,827,000 was due within 12 months of that date. In addition, as disclosed in note 2(b) and note 28(i) to the consolidated financial statements, the Group could not fulfill certain bank covenants relating to certain bank loans amounted to HK$5,915,854,000 as at 31 December 2017. The corresponding litigations commenced by the banks against the Group as at 31

December 2017 was amounted to HK$1,481,340,000, details of which are set out in note 28(iii) to the consolidated financial statements. Furthermore, the Group had delayed in settlement of certain loans from banks. As at 31 December 2017, the principal amounts of the bank loans amounted to HK$1,845,503,000 had been overdue and had not been settled by the Group.

Besides, there were other litigations against the Group by certain local governments and constructors during the year. As a result of litigations initiated by local governments, the Group made provision for litigation of HK$173,823,000 and wrote off the corresponding property, plant and equipment and lease prepayments of HK$44,926,000 and HK$101,224,000 respectively as disclosed in note 37(c)(ii) to the consolidated financial statements during the year ended 31 December 2017. As for litigations initiated by constructors, there were provision for construction fees and corresponding late penalties of HK$167,543,000 as disclosed in note 37(c)(i) to the consolidated financial statements as at 31 December 2017.

Additionally, following the continuous drop in business over the last few years, management of the Group had changed the intended use of certain items of property, plant and equipment and lease prepayments such that these items would likely to be recovered through sales transaction rather than through continuing use in the operations of the Group. An aggregate amount of impairment loss on property, plant and equipment and lease prepayments which are likely to be recovered through sales transaction amounting to HK$602,890,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to repay, renew or extend existing bank borrowings and other liabilities upon their maturities, through cash flows from operations and continuing support from the Group's bankers. 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 pressures on the Group and to improve the Group's financial position, as disclosed in note 2(b) to the consolidated financial statements. Up to the date of this report, we were unable to obtain sufficient supporting bases from the management for their underlying assumptions on going concern as set out in note 2(b) to the consolidated financial statements to satisfy ourselves that they were reasonable and supportable. Hence we were unable to assess the appropriateness or reasonableness of the use of the going concern assumption in the preparation of the consolidated financial statements.

Because of the significance of the matters above, we are unable to form an opinion as to whether the use of going concern assumption in the preparation of the consolidated financial statements is appropriate. Should the Group be unable to continue 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 reclassify non-current assets and liabilities as current assets and 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, impairment assessments were 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$12,394,914,000, HK$2,516,048,000, HK$18,283,000 and HK$241,578,000 after impairment as at 31 December 2017, respectively. For assets which the management of the Group had identified were recoverable through continuing use, the Group assessed the recoverable amount of each cash-generating unit ("CGU") to which these assets belonged based on value-in-use calculations. These value-in-use calculations used cash flow projections based on the most recent financial forecasts covering a period of five years approved by the Directors. The financial forecasts were supposed to be based on their best estimates of the range of economic conditions that would exist over the period covered by the forecasts.

As a result of the impairment assessments, the management had assessed that the recoverable amounts of certain CGUs based on the estimated value-in-use calculations were lower than their carrying amounts as at 31 December 2017. Accordingly, provision for impairment losses on property, plant and equipment and lease prepayments, which are considered to be recoverable through continuing use, in relation to certain CGUs of approximately HK$55,847,000 and HK$15,754,000 were recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

Based on our audit procedures carried out to satisfy ourselves that the value-in-use of the CGUs of the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments which the management had identified would be recoverable through continuing use of the assets, we noted that the discount rate, being one of the key assumptions, applied to arrive at present values of the projected cash flows, was too low as they did not adequately take into account the challenges in operating and financing activities that the Group faced recently. Therefore in our opinion, the impairment assessment carried out by management was not in accordance with IAS 36. Accordingly, in our opinion, the use of the discount rate had resulted in the recoverable amounts of these assets being materially overstated.

Any deficit of recoverable amount compared to carrying amount would represent an impairment loss to be recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 in accordance with IAS 36. However, in the absence of a discounted cash flow projection using an overall balanced set of assumptions and appropriate discount rate, 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 2017.

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 2017, increase the Group's loss for the year and affect the related 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 with aggregate amounts of HK$7,950,970,000 as at 31 December 2017 as disclosed in note 39 to the consolidated financial statements and the amount of the Company's loss for the year then ended as disclosed in the Company's statement of changes in equity as disclosed in note 33 to the consolidated financial statements.

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."

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Friday, 18 May 2018. 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 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, 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, 14 May 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

During the Review Year, the national economy, being stable and growing, has achieved steady and sound development. According to the data published by the National Bureau of Statistics of the PRC, the gross domestic product sustained a stable growth of 6.9% in 2017 and the national disposable income per capita was Renminbi ("RMB") 25,974, an increase of 7.3% over last year.

Under the influence of the macroeconomic environment, the competition in Chinese meat market remained keen in 2017. The total output of pork, beef, mutton and poultry reached 84.31 million tons in 2017, of which, the output of pork accounted for 53.40 million tons, up by 0.8%. The downward fluctuation in pork price during the first half of the year and the slight recovery followed in the second half of the year drove the average pork price down by approximately 8.8% compared with that of last year. Uncertainties in the economic environment and pork market affected the business operations of the industry players to a certain extent.

During the Review Year, the Chinese government stepped up efforts in food safety promotion and implementation of measures to strengthen the surveillance of food sources, supervision on procedures and risk control, and efforts in enhancement of food safety governance and protection standards. The Ministry of Agriculture also continued to improve the monitoring of slaughtering industry, with focus on enhancing the establishment of slaughtering industry regulatory system, regulatory supervision and enforcement against the slaughtering industry, risk control capability of slaughtering industry players as well as spearheading the slaughtering industry transformation and upgrading to facilitate healthy development of the livestock and poultry slaughtering industry. In addition, the Chinese government also regarded environmental protection issues as its focus, including tightening the pollutant emission standards, increasing dischargers' liabilities, improving the environmental protection credit ratings and imposing severe punishment etc. The Board believes that coupled with the government's favorable policy to eliminate the substandard slaughterhouses and the elimination of small slaughterhouses pursuant to the environmental laws and regulations which will sharpen the competitive advantages of slaughterhouses of larger scale, the Group will capture the opportunities arising therefrom to achieve stable business development by leveraging on its core competitiveness in resources, strategies and branding on a ongoing basis.

Against all uncertainties during the Review Year, the management adopted a more prudent strategy and continued to adhere to the Group's corporate mission to provide quality meat products for consumers amid the difficult market environment.

Business Review

During the Review Year, the average purchase cost of hog of the Group decreased by 18% as compared to that of the previous year. During the first half of 2017, hog prices increased in January, followed by a five-month consecutive decline, expanding from single digit to double digit. Hog prices rallied in June and picked up steadily thereafter. Facing the challenges arising from instabilities and uncertainties, the Group used its best endeavors to take all practical and prudent measures and methods to reduce capital expenditure, optimize existing asset structure, strengthen brand image and market positioning and expand sales channels and networks to sustain stable business.

Product Quality and Research and Development

As one of the industry leaders, Yurun Food's products have been well received by the market for years. Apart from the three Chinese brands, namely "Yurun Low Temperature Meat Product (雨潤牌低溫肉製品)", "Yurun Fresh Frozen Pork Cutout(雨潤牌鮮凍凍分割豬肉)" and "Wangrun High Temperature Sausage (旺潤高溫火腿腸)" as well as two well-known trademarks, namely "Yurun (雨潤)" and "Haroulian (哈肉聯)". These achievements are contributed by the philosophy "You trust because we care" that Yurun Food has been following all along the years in leading the industry through technical research and development and in ensuring product quality through advanced production processes and technologies.

In addition to the above honors, Yurun Food ranked first in terms of combined market shares of low temperature meat products ("LTMP") and chilled pork in China, topping the LTMP market nineteen years in a row and the chilled pork market five years in a row at 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 April 2017. During the Review Year, "Dried Sausage" and "Bacon" of Yurun Food were granted "Nongfu Cup – 2017 Quality Meat Product Award of China (農畉杯-2017全國優質肉類產品獎)" by China Meat Association.

The Group will continue to ensure high product quality, and focus on the research and development of new products which would be well received by the market, thereby further reinforcing its competitive edge and maintaining its leading position in the industry.

Sales and Distribution

Chilled pork and LTMP, being the Group's products with higher added value, remained to be the key drivers of the Group to sustain the overall business development during the Review Year. In 2017, sales of chilled pork of the Group was HK$9.275 billion (2016: HK$13.669 billion), representing a decrease of 32.1% over last year, accounting for approximately 75% (2016: 81%) of the total revenue of the Group prior to inter-segment eliminations and approximately 91% (2016: 93%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.914 billion (2016: HK$1.886 billion), representing an increase of 1.5% over last year, accounting for approximately 16% (2016: 11%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2016: 90%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

The Group expanded rapidly in previous years without smoothly adjusting along with the macro environment, resulting in an increased capital expenditure and borrowing costs and intensified operating pressure. In light of this, the Group adjusted its expansion pace according to market changes and its business conditions which is in strict compliance with its principle of investment cost control. The Group will continue to review the functional positioning of its factories and optimise existing resources structure from time to time, such as by integrating certain outlets distant from raw materials markets and consumer markets, in order to maximise the factories' strengths and ultimately increase capacity utilisation rate.

With respect to the upstream slaughtering, the annual capacity of the Group was 55.15 million heads per year as at 31 December 2017, representing a decrease of 0.6 million as compared with that as at 31 December 2016, due to the disposal of an upstream slaughtering subsidiary of the Group during the Review Year.

As at 31 December 2017, the annual production capacity of downstream processed meat segment was approximately 312,000 tons per year, same as that as at 31 December 2016.

Financial Review and Key Performance Indicators

The Group recorded revenue of HK$12.057 billion in 2017, representing a decrease of 27.8% from HK$16.702 billion last year. During the Review Year, despite the provision of HK$674 million (2016: HK$1.257 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 significantly decreased by 18.2% from HK$2.342 billion in the previous year to HK$1.915 billion.

During the Review Year, loss arising from principal business, being loss attributable to equity holders excluding government subsidies, gains or losses on disposal of non-current assets and other investment, write-off of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations of the Group, recorded a loss of HK$881 million (2016: HK$956 million), representing a reduction in loss of approximately 7.8% from the previous year. Basic and diluted loss per share was HK$1.051, representing a reduction in loss per share of approximately 18.2% from HK$1.285 of the previous year.

The Board and the management assessed the business development, performance and position of the Group according to the following key performance indicators.

Impairment losses on non-current assets

Amidst the slow economic growth of China and the Group's operating pressure 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 for the cash flow projection model which covers a five-year period, many assumptions about future performance, including but not limited to future sales volume, gross profit margin, expenses ratio and discount rate, were used. 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 amounts recoverable from cash generating units with continuing operation and engaged an external asset appraisal firm with professional qualification in the PRC to assess the asset impairment. The Directors and the management, with their professional experience in and understanding of the industry and considering factors such as the operation data of the Group, the industry's future development and the macro economy of China, believe that the operation performance 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 2017. In addition, the Board also referred to the recommendations set out in the relevant accounting standards and took into account the weighted average cost of capital and specific risks of the Group in their calculation of the discount rate for the cash flow projection. The discount rate was also reviewed by an external professional valuer which considered that the discount rate 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 of certain non-current assets of approximately HK$674 million (2016: HK$1.257 billion) was made by the Group as at 31 December 2017.

The Board reiterates that the Group performed the impairment assessment on the 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 state and the industry, the Group also considered several uncertain risks relating to the Group so as to ensure they, albeit the difficulties 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 used by the Group 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 5.46 million heads, representing a decrease of approximately 17.6% over last year. Total sales from upstream business prior to inter-segment eliminations decreased by 31.1% to HK$10.162 billion (2016: HK$14.743 billion). During the Review year, due to the falling trend of hog price and the Group's appropriate adjustment to the growth of slaughtering volume with an aim at maximising the profit, the overall revenue of the upstream business decreased accordingly. Sales of chilled pork decreased by 32.1% to HK$9.275 billion (2016: HK$13.669 billion), accounting for approximately 75% (2016: 81%) and approximately 91% (2016: 93%) of the total revenue of the Group prior to inter-segment eliminations and the total revenue of the upstream business of the Group respectively. Sales of frozen pork decreased by 17.4% to HK$887 million (2016: HK$1.074 billion), accounting for approximately 9% (2016: 7%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products of the Group prior to inter-segment eliminations was HK$2.134 billion (2016: HK$2.105 billion), representing an increase of 1.4% over last year.

Specifically, revenue of LTMP was HK$1.914 billion, representing an increase of 1.5% from HK$1.886 billion of last year. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 90% (2016: 90%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$220 million (2016: HK$219 million), accounting for approximately 10% (2016: 10%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 2.2% from HK$708 million in 2016 to HK$723 million in the Review Year. Overall gross profit margin increased by 1.8 percentage points to 6.0% from 4.2% of the previous year. The Group reduced sales through channels which were of relatively low profit margin, as and when appropriate, with an aim to increase profit.

In respect of the upstream business, gross profit margin of chilled pork and frozen pork were 3.4% and -3.3% respectively (2016: 2.5% and -6.5% respectively). The overall gross profit margin of the upstream segment was 2.9%, representing an increase of 1.1 percentage points from 1.8% of last year.

In respect of the downstream processed meat products, the gross profit margin of LTMP was 19.9%, representing an increase of 0.5 percentage point from 19.4% of the previous year. Gross profit margin of HTMP was 23.4%, representing a decrease of 10.4 percentage points from 33.8% over last year. The overall gross profit margin of the downstream segment was 20.3%, representing a decrease of 0.6 percentage point from 20.9% of the previous year.

Other Net Loss

During the Review Year, other net loss of the Group was HK$371 million (2016: net income of HK$25.74 million), mainly attributable to non-recurring losses, including provision for losses on litigations, loss on disposal/write-off of lease prepayments and property, plant and equipment.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.994 billion, representing a decrease of 25.7% from HK$2.682 billion of last year. Such expenses included impairment losses on certain assets in the amount of approximately HK$674 million (2016: HK$1.257 billion). Such decrease was mainly due to the decrease of approximately HK$582 million in impairment losses on non-current assets over last year. In addition, the Group took further measures to streamline certain work positions in order to reduce expenses, and therefore cost of wages and related staff cost decreased. Operating expenses excluding impairment losses represented 10.9% (2016: 8.5%) of the Group's revenue.

Results of Operating Activities

During the Review Year, operating loss of the Group was HK$1.641 billion (2016: HK$1.949 billion), representing a significant reduction in operating loss of 15.8% from the previous year.

Finance Costs

During the Review Year, net finance costs of the Group were HK$264 million while that of the previous year was HK$404 million. Net finance costs decreased by 34.7% as compared with that of the previous year, which was mainly due to the exchange gains of the Group arising from the appreciation of RMB during the Review Year.

Income Tax

Income tax expense for the Review Year was HK$9.97 million (2016: credit of HK$10.76 million).

Loss Attributable to the Equity Holders of the Company

Taking into account of the above factors, loss attributable to the equity holders of the Company during the Review Year was HK$1.915 billion (2016: HK$2.342 billion), representing a reduction in loss of 18.2% 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 and other investment, write-off of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations of the Group, was HK$881 million (2016: HK$956 million), representing a reduction in loss of approximately 7.8% from the previous year.

Financial Resources

As at 31 December 2017, the Group's cash balance together with time deposits, pledged deposits and restricted bank deposits were HK$271 million, representing a decrease of approximately HK$75 million from HK$347 million as at 31 December 2016. Approximately 83% (31 December 2016: 82%) of the above-mentioned financial resources was denominated in Hong Kong Dollars or RMB, and approximately 16% (31 December 2016: 17%) was denominated in US Dollars, while the rest was denominated in other currencies.

As at 31 December 2017, the Group had outstanding bank and other loans of HK$7.432 billion, representing an increase of HK$649 million from HK$6.783 billion as at 31 December 2016, of which bank loans of HK$7.214 billion (31 December 2016: HK$6.309 billion) are repayable within one year and the bank loans repayable within one year are expected to be renewed upon maturity.

All borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2016. As at 31 December 2017, the Group's fixed-rate debt ratio was 69.9% (31 December 2016: 81.4%).

Net cash outflow of the Group during the Review Year was mainly used for daily operations, payment for construction payables of projects already commenced and repayments of borrowings. The Group expects that the bank loans can be renewed upon maturity for its daily operating activities and other funding requirements.

During the Review Year, under the principle of strict control over investment costs, the capital expenditure of the Group further decreased significantly by 54.6% to HK$62 million from HK$138 million of last year.

Breach of Loan Agreements

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 2017, the Group could not fulfil the covenants in respect of certain bank loans with an aggregate amount of approximately HK$5.916 billion (31 December 2016: HK$3.793 billion), of which (i) HK$120 million (31 December 2016: HK$143 million), being an aggregate amount of certain long-term bank loans, was re-classified as current liabilities in the consolidated statement of financial position as at 31 December 2017; and (ii) HK$1.846 billion (31 December 2016: HK$776 million), being the outstanding bank loans, were due on or before 31 December 2017 but not yet renewed at the end of the reporting period. As at the date of the announcement, the aforesaid bank loans were yet renewed and bank loans of HK$46 million were repaid. The Group has been in active discussion with the banks regarding the above matters and the renewal of those matured bank loans. In the course of communication, the Group understood that the banks will not take any radical adverse actions against the Group and all parties hope that the Group can maintain normal operations. As such, the Board believes that the likelihood of demands from bank for immediate repayment is not high and the above matters do not have significant impact on the operations of the Group.

Assets and Liabilities

As at 31 December 2017, the total assets and total liabilities of the Group were HK$19.174 billion (31 December 2016: HK$19.310 billion) and HK$11.261 billion (31 December 2016: HK$9.919 billion) respectively, representing a decrease of HK$136 million and an increase of HK$1.342 billion as compared with the total assets and liabilities as at 31 December 2016 respectively.

As at 31 December 2017, the property, plant and equipment of the Group amounted to HK$12.395 billion (31 December 2016: HK$12.553 billion), representing a decrease of HK$158 million as compared with that as at 31 December 2016. Such decrease was mainly attributable to an impairment loss of approximately HK$545 million (2016: HK$948 million) in respect of certain assets after the impairment assessment and a disposal/write off of property, plant and equipment with a carrying amount of HK$284 million were recognised during the Review Year, net the increase of approximately HK$785 million in the carrying amount of property, plant and equipment as at 31 December 2017 caused by movement in foreign exchange arising from appreciation of RMB during the Review Year.

Lease prepayments as at 31 December 2017 amounted to HK$2.516 billion (31 December 2016: HK$2.663 billion). This represented the purchase cost of land use rights of the Group which was amortised on a straight-line basis over the respective period of the rights. The lease prepayments decreased by HK$147 million as compared with the previous year mainly due to the impairment loss of approximately HK$129 million (2016: HK$221 million) and write-off of lease prepayment of approximately HK$117 million (2016: HK$Nil) were recognised and partially set off with the movement in foreign exchange arising from appreciation of RMB during the Review Year.

Non-current prepayments and other receivables of the Group mainly represented the prepayments for acquisitions of land use rights and property, plant and equipment and the non-current portion of value-added tax recoverable. As at 31 December 2017, it amounted to HK$242 million (31 December 2016: HK$234 million) and HK$873 million (31 December 2016: Nil) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortize yet.

During the Review Year, the Group recorded a net loss of HK$1.915 billion (2016: HK$2.342 billion) and net cash used in operating activities of HK$355 million (2016: HK$107 million). As at 31 December 2017, the net current liabilities of the Group were HK$7.912 billion (31 December 2016: HK$5.619 billion). Its total bank and other loans and finance lease liabilities amounted to HK$7.564 billion (2016: HK$6.912 billion), of which HK$7.215 billion (2016: HK$6.309 billion) is due within 12 months from that date. As mentioned above, the Group failed to fulfil the terms of certain bank loans and some subsidiaries of the Group are facing various litigations. In addition, the Group recognised impairment losses on property, plant and equipment and lease prepayments which are likely to be recovered through sale transactions rather than through continuing use in the operation of the Group. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. To improve the above situations, the Group will actively negotiate with the banks to renew bank loans that have fallen due, implement comprehensive policies to monitor cash flows through cutting costs and capital expenditure, proactively take measures to accelerate the recovery of outstanding receivables, seek potential strategic investors and identify buyers for certain non-core assets to improve the cash flows. In view of these, the Directors believe that the Group has 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 2017, equity attributable to equity holders of the Company was HK$7.862 billion in total, representing a decrease of HK$1.481 billion as compared with HK$9.343 billion as at 31 December 2016.

As at 31 December 2017, 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 49.0%, representing an increase of 6.5 percentage points as compared with 42.5% as at 31 December 2016. As at 31 December 2017, after excluding cash in bank, time deposits and pledged deposits, the net gearing ratio was 47.3% (31 December 2016: 40.4%).

Charges on Assets

As at 31 December 2017, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK$3.482 billion (31 December 2016: HK$2.435 billion), certain investment properties of the Group with a carrying amount of HK$147 million (31 December 2016: HK$141 million), certain lease prepayments of the Group with a carrying amount of approximately HK$1.521 billion (31 December 2016: HK$1.201 billion), and certain trade receivables of the Group with a carry amount of approximately HK$36 million (31 December 2016: HK$26 million) were pledged against certain bank loans with a total amount of HK$4.379 billion (31 December 2016: HK$3.378 billion).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, 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 for 2018. The preliminary approved capital expenditure plan for 2018 is expected to be approximately RMB100 million, which will be used mainly for the construction in progress. As at the date of this announcement, the budget and the expenditure plan are yet to be finalised 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 2017, there were outstanding litigations initiated by banks in the PRC against certain subsidiaries of the Group, demanding them to secure an immediate repayment of the outstanding bank loans of approximately HK$1.481 billion (2016: HK$314 million) or otherwise assets of equivalent amount. As at 31 December 2017, certain assets of the Group with a carrying amount of approximately HK$173 million (2016: HK$356 million) were frozen by the courts in the PRC, in addition to the freezing of the restricted bank deposits of approximately HK$47 million (2016: HK$46 million). The Group is negotiating with the banks to resolve such litigations. Subsequent to 31 December 2017 and up to date of this announcement, the Group has repaid the bank loans under litigations of approximately HK$10 million and the corresponding frozen property, plant and equipment and restricted bank deposit of approximately HK$50 million and HK$37 million respectively had been released.

There were outstanding litigations initiated by several contractors against certain subsidiaries of the Group claiming an aggregate construction fee together with the late penalties of approximately HK$249 million (2016: HK$222 million). Pursuant to the judgments, the Group was ordered to make an immediate repayment of construction fee payables of approximately HK$62 million (2016: HK$32 million) and corresponding late penalties of approximately HK$27 million (2016: HK$Nil). As of the date of this announcement, litigations regarding the remaining claims of approximately HK$159 million (2016: HK$189 million) are still in progress. However, according to the advice of the Group's in-house legal counsel, the Directors estimate that the Group may be liable to pay approximately HK$168 million (2016: HK$222 million) for the settlement of the aforesaid construction fee and corresponding penalties. Provision for such amounts had been made accordingly.

During the Review Year, there were litigations initiated by certain local governments in the PRC against certain subsidiaries and a related company of the Group for immediate cash repayment of approximately HK$174 million (2016: HK$115 million) and return of certain assets with an aggregate amount of approximately HK$146 million (2016: HK$Nil). The Group made full provisions for the aforesaid claims and wrote off corresponding assets as at on 31 December 2017.

In respect of the progress of the above litigations, the Company will make further announcements 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 2017, the Group had approximately 11,000 (31 December 2016: approximately 12,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$594 million, accounting for 4.9% of the revenue (2016: HK$683 million, accounting for 4.1% of the revenue) 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 linked 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 to provide continuing education and training to management and employees so as to improve their skills and knowledge.

Environmental Policies and Performance

As a responsible corporation, the Group is committed to promoting environmental protection and makes best effort to minimize the environmental impact of its existing production and business activities. During the Review Year, 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.

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 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 2017 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, 20 March 2018

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.