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**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 2018

## 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 2018 (the "Review Year") together with the comparative figures of the corresponding period in 2017 as follows:

* *For identification purposes only*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

***For the year ended 31 December 2018***

| | Notes | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | *4* | **12,650,595** | 12,057,239 |
| Cost of sales | | **(11,685,060)** | (11,333,870) |
| **Gross profit** | | **965,535** | 723,369 |
| Other net loss | *5* | **(64,302)** | (370,790) |
| Distribution expenses | | **(585,219)** | (568,975) |
| Administrative and other operating expenses | | **(4,655,430)** | (1,424,858) |
| **Results from operating activities** | | **(4,339,416)** | (1,641,254) |
| Finance income | | **4,163** | 3,298 |
| Finance costs | | **(431,943)** | (267,116) |
| **Net finance costs** | | **(427,780)** | (263,818) |
| **Loss before income tax** | *6* | **(4,767,196)** | (1,905,072) |
| Income tax credit/(expense) | *7* | **10,317** | (9,973) |
| **Loss for the year** | | **(4,756,879)** | (1,915,045) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(4,758,804)** | (1,915,101) |
| Non-controlling interests | | **1,925** | 56 |
| **Loss for the year** | | **(4,756,879)** | (1,915,045) |
| **Loss per share** | | | |
| Basic and diluted | *9* | **HK$(2.611)** | HK$(1.051) |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

***For the year ended 31 December 2018***

| | *Note* | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|---|
| **Loss for the year** | | **(4,756,879)** | (1,915,045) |
| **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 | | **(339,092)** | 447,514 |
| Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries/deconsolidation of a deemed subsidiary | | **8,246** | (15,042) |
| | | **(330,846)** | 432,472 |
| **Total comprehensive income for the year** | | **(5,087,725)** | (1,482,573) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(5,087,605)** | (1,485,974) |
| Non-controlling interests | | **(120)** | 3,401 |
| **Total comprehensive income for the year** | | **(5,087,725)** | (1,482,573) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

***At 31 December 2018***

| | Notes | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | | |
| Property, plant and equipment | | **7,700,791** | 12,394,914 |
| Investment properties | | **213,562** | 211,395 |
| Lease prepayments | | **1,787,051** | 2,441,581 |
| Intangible assets | | **8,783** | 18,283 |
| Non-current prepayments and other receivables | | **1,168,525** | 1,114,729 |
| Deferred tax assets | | **7,994** | – |
| | | **10,886,706** | 16,180,902 |
| **Current assets** | | | |
| Inventories | | **705,379** | 663,733 |
| Current portion of lease prepayments | | **64,883** | 74,467 |
| Trade and other receivables | *11* | **1,753,123** | 1,980,304 |
| Income tax recoverable | | **1,755** | 2,749 |
| Restricted bank deposits | | **45,496** | 53,207 |
| Pledged deposits | | **–** | 25 |
| Cash and cash equivalents | | **218,687** | 218,212 |
| | | **2,789,323** | 2,992,697 |
| **Current liabilities** | | | |
| Bank and other loans | *13* | **6,355,546** | 7,214,335 |
| Finance lease liabilities | | **410** | 492 |
| Trade and other payables | *12* | **3,693,322** | 3,682,396 |
| Income tax payable | | **4,380** | 7,438 |
| | | **10,053,658** | 10,904,661 |
| **Net current liabilities** | | **(7,264,335)** | (7,911,964) |
| **Total assets less current liabilities** | | **3,622,371** | 8,268,938 |

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | *13* | **703,678** | 217,538 |
| Finance lease liabilities | | **93,664** | 131,870 |
| Deferred tax liabilities | | **206** | 6,982 |
| | | **797,548** | 356,390 |
| **NET ASSETS** | | **2,824,823** | 7,912,548 |
| **EQUITY** | | | |
| Share capital | | **182,276** | 182,276 |
| Reserves | | **2,591,819** | 7,679,424 |
| **Total equity attributable to equity holders of the Company** | | **2,774,095** | 7,861,700 |
| **Non-controlling interests** | | **50,728** | 50,848 |
| **TOTAL EQUITY** | | **2,824,823** | 7,912,548 |

## 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 2018 as set out in this preliminary announcement have been agreed by the Company's auditor, BDO Limited ("BDO"), 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 BDO 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 26 to 28 of this announcement.

### 2. BASIS OF PREPARATION

**Going concern basis**

The Group incurred a net loss of HK$4,756,879,000 (2017: HK$1,915,045,000) for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of HK$7,264,335,000 (2017: HK$7,911,964,000). Its current and non-current bank and other loans amounted to HK$6,355,546,000 (2017: HK$7,214,335,000) and HK$703,678,000 (2017: HK$217,538,000) as at 31 December 2018 respectively, while the Group maintained its cash and cash equivalents of HK$218,687,000 (2017: HK$218,212,000) only. The Group could not fulfil certain bank covenants relating to certain bank loans amounted to HK$5,001,676,000 (2017: HK$5,915,854,000) as at 31 December 2018. These bank loans balance was presented as the Group's current bank loans in the consolidated statement of financial position. Included in these bank loans were HK$2,187,878,000 (2017: HK$1,481,340,000) of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2018 and up to date of this report, the courts in the PRC have ordered to freeze the Group's bank deposits of HK$22,043,000 (2017: HK$46,618,000) and certain property, plant and equipment with carrying amount of HK$520,393,000 (2017: HK$172,825,000). 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 for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans;

(ii) Actively negotiating with banks to obtain additional new financing and other source of funding as and when required;

(iii) Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operations; and

(iv) Taking active measures to expedite collections of outstanding receivables.

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 successful implementation 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 net realisable 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 respectively. 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 new/revised to International Financial Reporting Standards ("IFRSs") that are first effective from the current accounting period of the Group and are relevant to the consolidated financial statements:

- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards
- Amendments to IAS 28, Investments in Associates and Joint Ventures
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 15 Revenue from Contracts with Customers (Clarifications to IFRS 15)
- Amendments to IAS 40 Transfers of Investment Property
- IFRIC-Int 22 Foreign Currency Transactions and Advance Consideration

The Group has not applied any new standard on interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other revised IFRSs are discussed belows.

**Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

**Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IAS 28, Investments in associates and Joint Ventures**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

**Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions**

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

**IFRS 9 – Financial Instruments**

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

***(i) Classification and measurement of financial assets and financial liabilities***

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

| | |
|---|---|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Amortised cost | Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss. |
| FVOCI (debt instruments) | Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss. |
| FVOCI (equity instruments) | Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. |

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

| Financial assets | Original classification under IAS 39 | New classification under IFRS 9 | Carrying amount as at 1 January 2018 under IAS 39 | Carrying amount as at 1 January 2018 under IFRS 9 |
|---|---|---|---|---|
| | | | *HK$'000* | *HK$'000* |
| Other loans and receivables | Loans and receivables | Amortised cost | 1,556,644 | 1,556,644 |
| Trade and other receivables | Loans and receivables | Amortised cost | 423,660 | 423,660 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 218,212 | 218,212 |

The carrying amounts for all financial assets and financial liabilities of the Group as at 1 January 2018 have not been impacted significantly by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 January 2018.

***(ii) Impairment of financial assets***

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". IFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than IAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expect to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For the Group's trade receivables, the Group has applied the simplified approach to recognise and measure lifetime ECLs. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows of each group receivables are estimated on the basis of historical credit loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised in profit or loss with a corresponding adjustment to the carrying amount of the financial assets.

*Impact of the ECL model*

The adoption of the ECL model under IFRS 9 does not have material impact on the carrying amounts of the Group's financial assets as at 1 January 2018.

***(iii) Hedging accounting***

Hedge accounting under IFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

***(iv) Transition***

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and

- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

**IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaced IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time.

The Group's contracts with customers of the sale of chilled and frozen meat and processed meat products generally include one performance obligation. The Group has concluded that revenue from sale of chilled and frozen meat and processed meat products should be recognised at the point in time when control of the assets is transferred to the customer, generally on delivery of the chilled and frozen meat and processed meat products. Therefore, the adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

The adoption of IFRS15 does not have impact on the Group's retained profits as at 1 January 2018. As at 1 January 2018, advance from customers of HK$210,402,000 in respect of sales contracts previously included in other payables were reclassified to contract liabilities.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

| Product | Nature of the goods, satisfaction of performance obligations and payment terms | Nature of change in accounting policy and impact on 1 January 2018 |
|---|---|---|
| Meat production | Customers obtain control of the meat products when the goods are delivered and have been accepted. Revenue is thus recognised upon when the customers accepted the meat products. There is generally only one performance obligation. For credit sales, invoices are usually payable within 30 days to 90 days.<br><br>**Right of return**<br>Some of the Group's contracts with customers from the sales of meat product provides customers a right of return when the products are incompliance with food safety standards, including exceeding the shelf life, deterioration, etc. | **Right of return**<br>Under IAS 18, revenue for these contracts was recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.<br><br>Under IFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised.<br><br>**Impact**<br>The adoption of IFRS 15 does not have significant impact on the Group's financial statements as at 1 January 2018 and 31 December 2018 in relation to the right of return. |

| Product | Nature of the goods, satisfaction of performance obligations and payment terms | Nature of change in accounting policy and impact on 1 January 2018 |
|---|---|---|
| Meat production | **Volume rebate**<br>Some of the Group's contracts with customers for the meat products provides customers a volume rebate if the customer purchase more than certain volume meat product within a specific period. | **Volume rebate**<br>Under IAS 18, the Group estimated the expected volume rebates using the probability-weighted amount of rebates approach and recognised as a reduction of revenue as the sales are recognised. A provision of rebate will be recognised in trade and other payable. Under IFRS 15, volume rebates give rise to variable consideration. The Group apply the expected value method to estimate the variable consideration. A refund liability would be recognised based on the estimate of the expected to be paid to customer's volume-based rebated.<br><br>**Impact**<br>The adoption of IFRS 15 does not have significant impact on the Group's financial statements as at 1 January 2018 and 31 December 2018 in relation to the volume rebate. |

**Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)**

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this, its first year.

**Amendments to IAS 40, Investment Property – Transfers of Investment Property**

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

**IFRIC–Int 22 – Foreign Currency Transactions and Advance Consideration**

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

## 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 2018 and 2017 is set out below:

| | **Chilled and frozen meat** | | **Processed meat products** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| External revenue | **10,482,226** | 9,966,812 | **2,168,369** | 2,090,427 | **12,650,595** | 12,057,239 |
| Inter-segment revenue | **212,196** | 195,514 | **7,805** | 44,022 | **220,001** | 239,536 |
| Reportable segment revenue | **10,694,422** | 10,162,326 | **2,176,174** | 2,134,449 | **12,870,596** | 12,296,775 |
| Depreciation and amortisation | **(357,005)** | (330,821) | **(106,146)** | (95,268) | **(463,151)** | (426,089) |
| Impairment losses on property, plant and equipment and lease prepayments | **(2,451,791)** | (530,203) | **(1,462,107)** | (144,288) | **(3,913,898)** | (674,491) |
| Loss on disposal of property, plant and equipment and lease prepayments | **(125,048)** | (140,056) | **(2,023)** | 707 | **(127,071)** | (139,349) |
| Reversal of/(provision for) impairment losses on trade and other receivables, net | **909** | (7,267) | **8,831** | 984 | **9,740** | (6,283) |
| Write-off of property, plant and equipment and lease prepayments | **(50,226)** | (157,277) | **–** | (4,668) | **(50,226)** | (161,945) |
| Government subsidies | **10,617** | 13,772 | **40,399** | 33,078 | **51,016** | 46,850 |
| Reportable segment loss before income tax | **(2,918,402)** | (1,456,887) | **(1,496,006)** | (100,819) | **(4,414,408)** | (1,557,706) |
| Income tax credit/ (expense) | **(1,173)** | (817) | **11,490** | (7,398) | **10,317** | (8,215) |

**(b) Reconciliations of reportable segment revenue and loss**

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Total revenue from reportable segments | **12,870,596** | 12,296,775 |
| Elimination of inter-segment revenue | **(220,001)** | (239,536) |
| Consolidated revenue | **12,650,595** | 12,057,239 |
| **Loss** | | |
| Total reportable segment loss before income tax | **(4,414,408)** | (1,557,706) |
| Elimination of inter-segment profit | **6,092** | 7,457 |
| | **(4,408,316)** | (1,550,249) |
| Gain/(loss) on disposal of subsidiaries/deconsolidation of a deemed subsidiary | **85,761** | (13,180) |
| Loss on disposal of other investment | **–** | (748) |
| Net finance costs | **(427,780)** | (263,818) |
| Income tax credit/(expense) | **10,317** | (9,973) |
| Unallocated head office and corporate expenses | **(16,861)** | (77,077) |
| Consolidated loss for the year | **(4,756,879)** | (1,915,045) |

**(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 2018 and 2017, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

## 5. OTHER NET LOSS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Government subsidies | **51,016** | 46,850 |
| Provision for losses on litigations *(Note 14(ii))* | **(130,578)** | (173,823) |
| Gain/(loss) on disposal of subsidiaries/deconsolidation of a deemed subsidiary *(note (i))* | **85,761** | (13,180) |
| Loss on disposal of lease prepayments | **(18,203)** | (39,313) |
| Loss on disposal of property, plant and equipment | **(108,868)** | (100,036) |
| Gain on disposal of investment properties | **5,494** | – |
| Loss on disposal of other investment | **–** | (748) |
| Write-off of property, plant and equipment | **(837)** | (44,926) |
| Write-off of lease prepayments | **(49,389)** | (117,019) |
| Rental income | **54,740** | 33,592 |
| Sales of scrap | **2,508** | 1,577 |
| Sundry income | **44,054** | 36,236 |
| | **(64,302)** | (370,790) |

*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$6,092,000. A gain on disposal of the subsidiary amounting to HK$85,761,000 was recognised during the year ended 31 December 2018.

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.

## 6. LOSS BEFORE INCOME TAX

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories | **11,685,060** | 11,333,870 |
| Depreciation | **387,614** | 362,851 |
| Amortisation of lease prepayments | **67,078** | 63,257 |
| Impairment losses on property, plant and equipment | **3,584,588** | 545,030 |
| Impairment losses on lease prepayments | **329,310** | 129,461 |
| Interest on bank and other loans and lease obligations, net of capitalised interest expense | **400,145** | 349,183 |
| Interest income from bank deposits | **(4,163)** | (3,298) |

## 7. INCOME TAX (CREDIT)/EXPENSE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax expense** | | |
| Current year | **2,064** | 2,854 |
| Under-provision in respect of prior years | **889** | 256 |
| | **2,953** | 3,110 |
| **Deferred tax (credit)/expense** | | |
| (Reversal)/origination of temporary differences | **(13,270)** | 6,863 |
| Income tax (credit)/expense in the consolidated statement of profit or loss | **(10,317)** | 9,973 |

(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 2018 and 2017.

(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 2018 and 2017, 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 2018 and 2017.

(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 2018 (2017: HK$Nil).

## 9. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2018 is based on the loss attributable to equity holders of the Company for the year of HK$4,758,804,000 (2017: HK$1,915,101,000) and the weighted average number of 1,822,756,000 (2017: 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 2018 and 2017 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 2018 and 2017.

## 11. TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **409,094** | 460,011 |
| Less: Impairment | **(25,350)** | (36,351) |
| Trade receivables, net | **383,744** | 423,660 |
| Bills receivable | **1,437** | 1,029 |
| Value-added tax recoverable | **1,124,086** | 1,297,411 |
| Deposits and prepayments | **194,002** | 136,534 |
| Others | **49,854** | 121,670 |
| | **1,753,123** | 1,980,304 |

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:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **235,300** | 174,607 |
| 31 days to 90 days | **98,486** | 161,920 |
| 91 days to 180 days | **49,958** | 57,794 |
| Over 180 days | **–** | 29,339 |
| | **383,744** | 423,660 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables *(note (i))* | **598,463** | 741,837 |
| Receipts in advance | **–** | 210,402 |
| Deposits from customers | **126,799** | 129,507 |
| Contract liabilities *(note (ii))* | **246,029** | – |
| Salary and welfare payables | **78,398** | 87,618 |
| Value-added tax payable | **1,530** | 7,726 |
| Payables for acquisitions of property, plant and equipment | **614,335** | 699,637 |
| Provision for losses on litigations | **136,964** | 297,819 |
| Interest payables | **820,985** | 542,785 |
| Other payables and accruals | **1,069,819** | 965,065 |
| | **3,693,322** | 3,682,396 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **429,363** | 502,871 |
| 31 days to 90 days | **69,108** | 122,676 |
| 91 days to 180 days | **27,599** | 59,236 |
| Over 180 days | **72,393** | 57,054 |
| | **598,463** | 741,837 |

(ii) Contract liabilities:

| | **31 December 2018** | 1 January 2018 | 31 December 2017 |
|---|---|---|---|
| | ***$'000*** | *$'000* | *$'000* |
| **Contract liabilities arising from:** | | | |
| Sale of goods | **246,029** | 210,402 | – |

(ii) Contract liabilities: (continued)

Typical payment terms which impact on the amount of contract liabilities are as follows:

**Sale of goods**

As noted above, the receipts in advance received from the customers remains as a contract liability until the goods have been transferred and accepted by the customer.

**Movements in contract liabilities**

| | **2018** |
|---|---|
| | ***$'000*** |
| Balance at 1 January | **210,402** |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | **(210,402)** |
| Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred and not yet accepted by the customer | **246,092** |
| Balance at 31 December | **246,092** |

The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of IFRS 15, amounts previously included as "Receipts in advance" have been reclassified to "Contract liabilities".

## 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 2018, the Group could not fulfil covenants imposed by banks on certain loans with an aggregate amount of HK$5,001,676,000 (2017: HK$5,915,854,000). Included in this amount, loans of an aggregate amount of HK$114,943,000 (2017: HK$119,632,000) which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position as at 31 December 2018. The Group is negotiating with the banks to renew bank loans at the end of the reporting period. As at the date of approval of the consolidated financial statements, the aforesaid bank loans were not yet renewed and bank loans of HK$3,009,000 were repaid.

At 31 December 2018, 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$2,187,878,000 (2017: HK$1,481,340,000) or to secure the repayment with assets of equivalent amount immediately. Certain property, plant and equipment of the Group with carrying value of HK$520,393,000 (2017: HK$172,825,000) have been frozen by the court in the PRC as at 31 December 2018, in addition to the freezing of restricted bank deposits of HK$22,043,000 (2017: HK$46,618,000) in relation to these litigations. The Group is negotiating with the banks to settle these litigations. Subsequent to 31 December 2018 and up to the date of this consolidated financial statements, included in the subsequent repayment of bank loans of HK$684,000 were repayment of bank loans under litigations.

## 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, totalling approximately HK$326,501,000 (2017: HK$248,531,000). 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$190,682,000 (2017: HK$167,543,000) ("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 2018. During the year ended 31 December 2018, 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$95,447,000 (2017: HK$62,027,000) and corresponding late penalties of approximately HK$40,532,000 (2017:HK$27,499,000). 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$190,521,000 (2017: HK$159,005,000) are still in process, of which an aggregate amount of HK$54,703,000 (2017: HK$78,017,000) had been included in the Provision Amount as at 31 December 2018. In the opinion of the Directors, no further provision for litigation was required to be made for the year ended 31 December 2018.

(ii) During the year ended 31 December 2018, there were litigations initiated by municipal people's governments in the PRC claiming against certain 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$130,578,000 (2017: HK$173,823,000). The Group recognised losses of HK$130,578,000 (2017: HK$173,823,000) as "provision for losses on litigations in "other net loss" in the consolidated statement of profit or loss for the year ended 31 December 2018.

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 2018, 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 BDO Limited, the Company's auditor, on the consolidated financial statements of the Group for the year ended 31 December 2018:

"We do not express an opinion on the consolidated financial statements of the Group due to the potential interaction of the multiple uncertainties relating to going concern and the significance of their possible cumulative effects on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report. 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

As described in note 3(b) to the consolidated financial statements, the Group incurred a net loss of HK$4,756,879,000 for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of HK$7,264,335,000. Its current and non-current bank and other borrowings amounted to HK$6,355,546,000 and HK$703,678,000 as at 31 December 2018 respectively, while the Group maintained its cash and cash equivalents of HK$218,687,000 only. In addition, as disclosed in note 3(b) and note 28(i) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to certain bank loans amounted to HK$5,001,676,000 as at 31 December 2018. These bank loans balance was presented as the Group's current bank borrowings in the consolidated statement of financial position. Included in these bank loans were HK$2,187,878,000 of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2018 and up to date of this report, the courts in the PRC have ordered to freeze the Group's bank deposits of HK$22,043,000 and certain property, plant and equipment with carrying amount of HK$520,393,000. Details of these litigations are set out in note 28(iii) to the consolidated financial statements. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's plans and measure to mitigate its liquidity pressure and to improve its financial performance as set out in note 3(b) to the consolidated financial statements, including (i) the successful negotiation with banks for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans; (ii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required; (iii) the Group is able to implement its operation plans to enhance profitability and control costs and to generate adequate cash flows from operations; and (iv) taking active measures to expedite collection of outstanding receivables. The successful outcomes of the abovementioned plans and measures are subject to multiple uncertainties.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in note 3(b) to the consolidated financial statements, it might not be able to operate as a going concern, and adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

The predecessor auditor of the Company disclaimed their audit opinion on the consolidated financial statements for the year ended 31 December 2017 relating to the going concern basis of preparing the consolidation financial statements. Any adjustments to the balances as at 31 December 2017 would affect the balances of these financial statements items as at 1 January 2018 and the corresponding movements, if any, during the year ended 31 December 2018. The balances as at 31 December 2017 and amounts for the year then ended are presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2018. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2018 also for the possible effect of the disclaimer of audit opinion on 2017 consolidated financial statements on the comparability of 2018 figures and 2017 figures in 2018 consolidated financial statements.

**Comparative figures and Impairment loss on certain non-financial assets recognised for the year**

The directors of the Company have performed impairment assessment of the Group's non-financial assets as at 31 December 2017 according to International Accounting Standard 36 Impairment of Assets and recognised impairment losses accordingly. After the impairment losses, the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments ("the Non-financial Assets") as at 31 December 2017 amounted to HK$12,394,914,000, HK$2,441,581,000, HK$18,283,000 and HK$1,114,729,000 respectively. The predecessor auditor of the Company disagreed with the impairment assessment performed by the directors of the Company and the predecessor auditor opined that the impairment losses of HK$674,491,000 recognised in the consolidated financial statements for the year ended 31 December 2017 were understated and the carrying amounts of the Non-financial Assets were overstated. However, they were not able to quantify the amount misstated.

For the year ended 31 December 2018, impairment losses of HK$3,584,588,000 and HK$329,310,000 on the Group's property, plant and equipment and leased prepayments respectively are recognised and charged to the consolidated statement of profit or loss. Due to the carrying amounts of the Non-financial Assets as at 31 December 2017 were overstated, the amount of impairment losses on the Non-financial Assets recognised for the year ended 31 December 2018 is overcharged but we are not able to quantify the amount misstated. Also on the basis that the carrying amounts of the Non-financial Assets as at 31 December 2017 and their impairment losses were misstated in the consolidated financial statements for the year ended 31 December 2017, these balances and amounts presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2018 are not comparable to the current year end balances and amounts of depreciation charge, amortisation and impairment losses recognised for the year ended 31 December 2018.

In addition, as the Non-financial Assets as stated above were held by various subsidiaries of the Company, any further impairment losses on the Non-financial Assets found to be necessary would result in recognising impairment losses on the Company's investments in subsidiaries and amounts due from subsidiaries with carrying amount of HK$7,950,970,000 as at 31 December 2017 and increasing the Company's loss for the year ended 31 December 2017. Due to the carrying amounts of the Non-financial Assets as at 31 December 2017 were overstated and as a consequence the carrying amount of the Company's investments in subsidiaries and amounts due from subsidiaries as at 31 December 2017 was overstated in the note to the consolidated financial statements for the year ended 31 December 2017, these balances presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2018 are not comparable to the current year end balances.

### OTHER MATTER

Had we not disclaimed our opinion, we would have issued a qualified opinion due to a material misstatement of the impairment loss on Non-financial Assets for the year ended 31 December 2018 and also on the basis that the carrying amount of Non-financial Assets as at 31 December 2017 and the impairment losses for the year then ended are not comparable to the current year end balances and amounts recognised for the year ended 31 December 2018.

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed a disclaimer of opinion on those statements on 20 March 2018."

## ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Friday, 31 May 2019. 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 2018.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019, 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, 27 May 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

During the Review Year, affected by external factors, the volatility of global economy was intensified, clouding the market with uncertainties. During the year, China's economic structure was further optimized and enhanced and the overall economy continued to grow steadily at a slower pace. As a major driver of economic growth, the Consumer Price Index increased by 2.1% in 2018. According to the data published by the National Bureau of Statistics, the gross domestic product (GDP) of China grew 6.6% in 2018, in line with the projected target of development. Revenue from the food and beverage sector maintained a sound and steady growth at 9.5%.

During the Review Year, China's meat market remained highly competitive. Affected by factors including costs, total production capacity, demand and the outbreak of the African swine fever, pork prices declined in early 2018, followed by a slight rebound in the second half of the year. In addition, due to the outbreak of the African swine fever which affected the deployment of hogs between provinces, different regions recorded different price changes. During the Review Year, the output of pork decreased by 0.9% to 54.04 million tons. Due to the uncertainties of the economic environment and pork market, the operation of the companies in the sector was affected to a certain extent.

During the Review Year, the Chinese government continued to improve the management on the livestock and poultry slaughtering industry with a view to enhancing the supervision of slaughtering and safeguarding product safety. According to the relevant requirements of the Notice of the General Office of the Ministry of Agriculture on Strengthening Management of Livestock & Poultry Slaughtering Industry in 2018, the focus shall be placed on promoting quality standard development of the livestock and poultry slaughtering industry, strengthening the supervision of the quality and safety of slaughtering, encouraging joint governance in the slaughtering industry, improving the management standard and facilitating the healthy growth of the livestock and poultry slaughtering industry. In addition, the Chinese government also emphasized environmental protection issues, including tightening the pollutant emission standards, aggravating dischargers' liabilities, optimizing the environmental protection credit ratings and imposing severe punishment etc. The Board believes that, with the government's efforts to step up favorable policies of eliminating unqualified slaughterhouses and the phasing out of small slaughterhouses under environmental laws and regulations which strengthen the competitive advantages of large-scale slaughterhouses, the Group will continue to capitalize on its core competitive edges on resources, strategies and brands and capture the opportunities arising therefrom to accelerate stable business development.

During the Review Year, due to the African swine fever outbreak, the government issued several notices and circulars to regulate the deployment of hogs and circulation of meat products, having great impact on the industry. Besides, various discussions with relevant parties are organized by the government to formulate proposals and work plans for regional control of the African swine fever, so as to maintain uniform management of animal diseases prevention in different regions, deployment of hogs and related products and optimisation of the industrial landscape.

In face of the uncertainties during the Review Year, the management of the Group adopted a more prudent strategy and continued to adhere to the Group's corporate philosophy of providing quality meat products to consumers amid the difficult market environment.

## BUSINESS REVIEW

During the Review Year, the Group's average purchase cost of hog decreased by 18.0% as compared to that of the previous year. Hog prices dropped in mid-January, followed by a consecutive decline for five months and a slight rise in June. Affected by the outbreak of African swine fever in early August, hog prices in general plunged dramatically as compared to the previous year. In view of the industrial fluctuations and the epidemic, consumers have become more prudent in food safety. As one of the leading companies in the industry, the Group strengthened epidemic prevention and ensured product safety during this period in order to offer safe products to consumers. In the second half of the Review Year, the sales and gross margin of the Group were on upside.

The Group expected that the relevant national policy concerning African swine fever would have impact on the hog slaughtering industry, as well as the integration and development of the meat product industry, over a period of time. As a renowned meat products processing enterprise in China, Yurun Food has a competitive edge in nationwide presence with leading inspection and testing capabilities. These advantages will continue to generate positive effect on the operation of Yurun Food in the future.

### Product Quality and Research and Development

As one of the leading industry players, Yurun Food has several products which 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)", the Group also owns two well-known trademarks, namely "Yurun (雨潤)" and "Haroulian (哈肉聯)" and a China Time-honored Brand, "Popular Meat Packing(大眾肉聯)". These achievements are contributed by the philosophy "You trust because we care" that Yurun Food has been following throughout years in leading the industry through technical research and development and in ensuring product quality through advanced production processes and technologies.

Yurun Food ranked first in terms of combined market shares of chilled pork and low temperature meat products ("LTMP") in China, being the top player in the LTMP market for twenty years in a row and in the chilled pork market for seven consecutive years at the Press Conference of Product Sales Statistics of the PRC Market (中國市場商品銷售統計結果新聞發佈會) held in March 2018. The Group will continue to guarantee 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 as the key drivers to promote the Group's overall business development during the Review Year. In 2018, sales of chilled pork of the Group were HK$9.668 billion (2017: HK$9.275 billion), representing an increase of 4.2% over last year, accounting for approximately 75% (2017: 75%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2017: 91%) of the total revenue of the upstream slaughtering segment. Sales of LTMP were HK$1.922 billion (2017: HK$1.914 billion), comparable to last year, accounting for approximately 15% (2017: 16%) of the total revenue of the Group prior to inter-segment eliminations and approximately 88% (2017: 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 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 in strict compliance with its principle of investment cost control.

With respect to the upstream slaughtering, the annual production capacity of the Group was 52.65 million heads as at 31 December 2018, representing a year-on-year net decrease of 2.50 million heads.

As at 31 December 2018, the annual production capacity of the downstream processed meat segment was maintained at approximately 312,000 tons per year, same as that as at 31 December 2017.

## FINANCIAL REVIEW AND KEY PERFORMANCE INDICATORS

The Group reported revenue of HK$12.651 billion in 2018, representing an increase of 4.9% from HK$12.057 billion last year. During the Review Year, due to the provision of approximately HK$3.914 billion (2017: HK$674 million) made by the Group for impairment losses on non-current assets, the loss attributable to equity holders increased by HK$2.844 billion from HK$1.915 billion of the previous year to HK$4.759 billion. Basic and diluted loss per share was HK$2.611 (2017: HK$1.051).

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, losses on write-off of non-current assets, net foreign exchange gain/loss, impairment losses on non-current assets and provision for losses on litigations, was HK$648 million (2017: HK$881 million), representing a significant reduction in loss of approximately 26.5% from 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

In view of the slow economic growth of China and the Group's operating pressure over the past few years, the Board performed impairment assessment on relevant non-current assets of the Group according to the requirement of the "International Accounting Standard (the "IAS") 36 – Impairment of Assets".

During the assessment process, in particular for the cash flow projection model which covers a five-year period, many assumptions on future performance were used, including but not limited to those on future sales volume, gross profit margin, expenses ratio and discount rate. 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 units with continuing operation and engaged an independent asset appraisal firm with professional qualification in the PRC (the "Valuer") to assess the assets. 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, the Directors and the management believed that the operation performance of the Group would improve gradually in the next five years. This had formed the basis and assumption of the cash flow projection model for the past few years. The Board believes that such calculation method fulfills the requirements of IAS 36. The former auditors, however, considered that the data and the assumptions adopted had not fully reflected the operational and financial challenges facing the Group. Therefore, no agreement on asset impairment was reached between the former auditors and the Board in past years.

The former auditors of the Company issued their disagreement on the impairment of non-current assets of the Company for four consecutive years. The Board has been dedicated to resolving the disagreements with the auditor on this issue. In order to assess the impairment of the non-current assets of the Group more prudently in accordance with the requirements of IAS 36 and to reach an agreement with the auditor, the Company raised the discount rate from 17% used in 2017 to 19% in 2018 to reflect the Group's exposure to risks. Other future assumptions (including but not limited to future sales, gross profit margin and expenses ratio, etc.) used in the cash flow projection model which covers a five-year period were reasonable and prudent assumptions agreed by the auditor. In addition, the Company also engaged the Valuer to conduct professional assessment on the non-current assets of the Group. Based on the above assessment and analysis, the Board and the management made a significant provision for impairment losses of approximately HK$3.914 billion (2017: HK$674 million) during the Review Year. Provision for impairment losses made from 2015 to 2018 amounted to approximately HK$7.123 billion in aggregate. Although the amount is significant but the impairment losses on non-current assets are accounting losses and non-cash item, and therefore have no effect on the cash flow of the Group's operation. After such provision for impairment losses, the disagreement between the Company and BDO Limited (the "Auditor"), the independent auditor of the Company on impairment losses was resolved as at 31 December 2018. After the aforesaid provision for impairment losses, the management expected that there will be no further significant impairment losses on those non-current assets in a short run as and when the operation of the Group improves continuously, unless the operating environment changes dramatically.

Although the Company reached a consensus with the Auditor on the impairment assessment for the non-current assets as at 31 December 2018, the Auditor considers that the amount of impairment losses on the non-current assets (as a profit and loss item) recognised for the year ended 31 December 2018 is overstated. The reason is the former auditor of the Company disagreed with the impairment assessment conducted by the Company and opined that the impairment losses recognised were understated and the carrying amounts of the non-current assets were overstated in the consolidated financial statements for the year ended 31 December 2017. In addition, due to the carrying amounts of the non-current assets as at 31 December 2017 and their impairment losses were misstated in the consolidated financial statements for the year ended 31 December 2017, these balances and amounts presented as corresponding figures in the consolidated financial statements are not comparable. On such basis, the Auditor has issued a qualified opinion on the impairment loss (being a profit and loss item) during the Review Year and the comparable figures for the year 2017.

**Revenue**

**Chilled and Frozen Pork**

The hog price in China has been declining since the first half of 2017. Despite a rebound in the second half of 2018, the average price for the year was still lower than that of last year generally. During the Review Year, the Group's average purchase price of hogs decreased by 18.0% compared to 2017. In response to the declining pork price, the management refined the strategies to increase the slaughtering volume. Due to this factor and coupled with the spread of African swine fever that boosted the sales of the Group, the slaughtering volume of the Group during the Review Year amounted to approximately 6.61 million heads, representing an increase of approximately 21.0% over last year. The increase in the slaughtering volume softened the impact of the declining pork price, resulting in a rise in the total revenue from the upstream business prior to inter-segment eliminations by 5.2% to HK$10.694 billion (2017: HK$10.162 billion). Among the total revenue, the sales of chilled pork increased by 4.2% to HK$9.668 billion (2017: HK$9.275 billion), accounting for approximately 75% (2017: 75%) of the Group's total revenue prior to inter-segment eliminations and approximately 90% (2017: 91%) of the total revenue of the upstream business. Sales of frozen pork increased by 15.7% from 2017 to HK$1.026 billion (2017: HK$887 million), accounting for approximately 10% (2017: 9%) 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 were HK$2.176 billion (2017: HK$2.134 billion), representing an increase of 2.0% over last year.

Specifically, revenue of LTMP was HK$1.922 billion, comparable to HK$1.914 billion of last year. LTMP remained as a key revenue driver of the processed meat business, accounting for approximately 88% (2017: 90%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$254 million (2017: HK$220 million), representing an increase of 15.3% over last year, accounting for approximately 12% (2017: 10%) of the total revenue of the processed meat segment.

**Gross Profit and Gross Profit Margin**

Gross profit of the Group significantly increased by 33.5% from HK$723 million in 2017 to HK$966 million during the Review Year. Overall gross profit margin increased by 1.6 percentage points to 7.6% from 6.0% of the previous year. The Group adjusted its sales channels, where appropriate, to reduce sales through those with lower gross profit margins, following its profit enhancement strategy.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 5.2% and 1.0% respectively (2017: 3.4% and -3.3% respectively). The overall gross profit margin of the upstream segment was 4.8%, representing an increase of 1.9 percentage points from 2.9% of the previous year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 19.4%, representing a decrease of 0.5 percentage point from 19.9% of the previous year. Gross profit margin of HTMP was 30.0%, representing a significant increase of 6.6 percentage points from 23.4% over the previous year. The overall gross profit margin of the downstream segment was 20.7, comparable to 20.3% of last year.

**Other Net Loss**

During the Review Year, other net loss of the Group was HK$64.30 million (2017: HK$371 million), representing a decrease of 82.7% over last year. Other net loss during the Review Year was mainly attributable to non-recurring losses, including provision for losses on litigations (please refer to the section headed "Contingent Liabilities" for details), 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$5.241 billion, representing an increase of HK$3.247 billion from HK$1.994 billion of the previous year. Such increase was mainly due to the substantial provision of impairment losses on non-current assets of approximately HK$3.914 billion (2017: HK$674 million), and increase in transportation expenses resulting from increasing sales. Operating expenses excluding impairment losses amounted to HK$1.327 billion (2017: HK$1.319 billion), representing 10.5% (2017: 10.9%) of the Group's revenue.

**Results of Operating Activities**

During the Review Year, operating loss of the Group was HK$4.339 billion (2017: HK$1.641 billion), representing an increase of HK$2.698 billion from the previous year.

**Finance Costs**

During the Review Year, net finance costs of the Group were HK$428 million (2017: HK$264 million), representing an increase of 62.1% over last year. The increase in net finance costs was mainly due to increase in interest expenses, and exchange losses of the Group arising from the depreciation of Renminbi ("RMB") during the Review Year.

**Income Tax**

Income tax credit for the Review Year was approximately HK$10.32 million, while that the income tax expenses of the previous year was approximately HK$9.97 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$4.759 billion (2017: HK$1.915 billion). Loss arising from the 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, provision for losses on litigations and other non-operating losses, was HK$648 million (2017: HK$881 million), representing a significant reduction in loss of approximately 26.5% from the previous year.

## FINANCIAL RESOURCES

As at 31 December 2018, the Group's cash balance together with pledged deposits and restricted bank deposits were HK$264 million, representing a decrease of approximately HK$7 million from HK$271 million as at 31 December 2017. Approximately 91% (31 December 2017: 83%) of the above-mentioned financial resources was denominated in Hong Kong Dollars or RMB, and approximately 8.5% (31 December 2017: 16%) was denominated in US Dollars, while the rest was denominated in other currencies.

As at 31 December 2018, the Group had outstanding bank and other loans of HK$7.059 billion, representing a decrease of HK$373 million from HK$7.432 billion as at 31 December 2017, of which bank and other loans of HK$6.356 billion (31 December 2017: HK$7.214 billion) are repayable within one year.

All borrowings were denominated in RMB, which were consistent with the borrowings as at 31 December 2017. As at 31 December 2018, the Group's fixed-rate debt ratio was 81.0% (31 December 2017: 69.9%).

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, the capital expenditure of the Group was HK$82.75 million (2017: HK$62 million) for the payment for construction in progress of those projects already commenced.

## 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 2018, the Group could not fulfil the covenants in respect of certain bank loans with an aggregate amount of approximately HK$5.002 billion (31 December 2017: HK$5.916 billion), of which (i) HK$115 million (31 December 2017: HK$120 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 the date of this announcement, the aforesaid bank loans were not renewed and bank loans of HK$3 million (31 December 2017: HK$46 million) were repaid.

The Group has maintained close communication 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 actions against the Group and all parties hoped 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 2018, the total assets and total liabilities of the Group were HK$13.676 billion (31 December 2017: HK$19.174 billion) and HK$10.851 billion (31 December 2017: HK$11.261 billion) respectively, representing a decrease of HK$5.498 billion and HK$410 million as compared with the total assets and liabilities as at 31 December 2017.

As at 31 December 2018, the property, plant and equipment of the Group amounted to HK$7.701 billion (31 December 2017: HK$12.395 billion), representing a decrease of HK$4.694 billion as compared with that as at 31 December 2017. Such decrease was mainly attributable to an impairment loss of approximately HK$3.585 billion (2017: HK$545 million) in respect of certain assets, disposal/write off of property, plant and equipment with a carrying amount of approximately HK$529 million (2017: HK$284 million) during the Review Year, and decrease of approximately HK$287 million (2017: increase of HK$785 million) in the carrying amount of property, plant and equipment as at 31 December 2018 due to movement in foreign exchange arising from depreciation of RMB during the Review Year.

Lease prepayments as at 31 December 2018 amounted to HK$1.852 billion (31 December 2017: HK$2.516 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. Lease prepayments decreased by HK$664 million as compared with the previous year mainly due to the impairment losses of approximately HK$329 million (2017: HK$129 million) and disposed/write-off of lease prepayments of approximately HK$93.38 million (2017: HK$83.25 million) recognised and the movement in foreign exchange arising from depreciation 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 2018, it amounted to HK$219 million (31 December 2017: HK$242 million) and HK$949 million (31 December 2017: HK$873 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortise yet.

During the Review Year, the Group recorded a net loss of HK$4.757 billion (2017: HK$1.915 billion). As at 31 December 2018, net current liabilities of the Group were HK$7.264 billion (31 December 2017: HK$7.912 billion). Its total bank and other loans and finance lease liabilities amounted to HK$7.153 billion (31 December 2017: HK$7.564 billion), of which HK$6.356 billion (31 December 2017: HK$7.215 billion) is due within 12 months from that date. Although the Group failed to fulfil the terms of certain bank loans as mentioned above and some subsidiaries of the Group are facing various litigations, the Group has been in active discussion with the bank on the renewal issue and is optimistic during the course of discussion. The Directors believe that the bank loans due within a year can be renewed upon maturity. In addition, the Group will implement its operation plans to enhancing profitability and control costs and to generate adequate cash flows from operations, and to improve cash flow by proactively taking measures to accelerate the recovery of outstanding receivables. 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 2018, equity attributable to equity holders of the Company was HK$2.774 billion in total, representing a decrease of HK$5.088 billion as compared with HK$7.862 billion as at 31 December 2017.

As at 31 December 2018, the total debt/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 72.1%, representing an increase of 23.1 percentage points from 49.0% as at 31 December 2017. As at 31 December 2018, after excluding cash in bank, pledged deposits and restricted bank deposits, the net debt/ net gearing ratio was 69.4% (31 December 2017: 47.3%).

## CHARGES ON ASSETS

As at 31 December 2018, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK$2.615 billion (31 December 2017: HK$3.482 billion), certain investment properties of the Group with a carrying amount of HK$104 million (31 December 2017: HK$147 million), certain lease prepayments of the Group with a carrying amount of approximately HK$984 million (31 December 2017: HK$1.521 billion), and certain trade receivables of the Group with a carry amount of

approximately HK$28 million (31 December 2017: HK$36 million) were pledged against certain bank loans with a total amount of approximately HK$3.949 billion (31 December 2017: HK$4.379 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 in 2019. The preliminary approved capital expenditure plan for 2019 is expected to be approximately RMB100 million, which will be used mainly for the construction in progress. As at the date of this announcement, such budget and plan are not yet 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 2018, there were outstanding litigations initiated by certain 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$2.188 billion (31 December 2017: HK$1.481 billion) or otherwise assets of equivalent amount. As at 31 December 2018, certain assets of the Group with a carrying amount of approximately HK$520 million (31 December 2017: HK$173 million) were frozen by the courts in the PRC, including the restricted bank deposits of approximately HK$22 million (31 December 2017: HK$47 million). The Group is negotiating with the banks to resolve such litigations.

There were outstanding litigations initiated by several contractors against certain subsidiaries of the Group claiming construction fees and the late penalties in an aggregate of approximately HK$327 million (31 December 2017: HK$249 million). However, based on the advice of the Group's in-house legal counsel, the Directors estimated that the Group may be liable to pay approximately HK$191 million (31 December 2017: HK$168 million) for the settlement of the aforesaid construction fee and penalties. Provision for such amounts was made accordingly. Pursuant to the judgments, the Group was ordered to make an immediate payment of construction fee payables of approximately HK$95 million (31 December 2017: HK$62 million) and the corresponding late penalties of approximately HK$41 million (31 December 2017: HK$27 million). As of the date of this announcement, litigations regarding the remaining claims of approximately HK$191 million (31 December 2017: HK$159 million) are still in progress.

During the Review Year, there were outstanding litigations initiated by certain local governments in the PRC against certain subsidiaries and a related company of the Group demanding an immediate cash payment of approximately HK$131 million (31 December 2017: HK$174 million). The Group has made full provisions for the aforesaid claims.

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 the 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 2018, the Group had approximately 10,000 (31 December 2017: approximately 11,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$626 million, accounting for 5.0% of the revenue (2017: HK$594 million, accounting for 4.9% of the revenue) of the Group.

The Group offered its employees with remuneration and other employee benefits comparable to the market, 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 the 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 making the best effort to minimise the environmental impact of its 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.

**Responses from the Directors regarding the disclaimer of opinion set out in the Independent Auditor's Report for the year ended 31 December 2018**

**Disagreement between the Directors and the independent auditor**

The Auditor stated in the Independent Auditor's Report (the "Independent Auditor's Report) in the 2018 Annual Report that they are unable to form an opinion as to whether the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate.

As disclosed in note 2, after taking into account of the Group's cash flow projections covering a period of twelve months from the end of the reporting period of the year ended 31 December 2018 prepared by the management, and assuming the success of the measures to mitigate the liquidity pressure and to improve financial position, 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 Directors consider the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate. However, the Auditor considered the successful outcomes of the plans and measures mentioned in note 2 are subject to multiple uncertainties.

Except as mentioned above, the Company mentioned about the incident relating to Mr. Zhu Yicai ("Mr. Zhu"), the single largest shareholder and the Honorary Chairman of the Company, a Senior Advisor to the Board and a director of certain key operating subsidiaries of the Group in the annual reports of the Company of previous years. As described in previous years, the Directors are of the view that the incident relating to Mr. Zhu did not have any material adverse impact on the operation of the Group. In addition, Mr. Zhu had returned home (for details, please refer to the announcement of the Company dated 22 January 2019). Therefore, the Directors are of the view that the incident relating to Mr. Zhu did not have any impact on the going concern of the Group.

**The Company has been actively tackling the challenges from all aspects**

The Directors considered that although the Group is facing various challenges, including loss on operation, breach of covenants of certain bank loans, increasing litigations, etc, the Directors and the management have been actively tackling these problems, including but not limited to:

- Actively negotiating with banks for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans and to obtain additional new financing and other source of funding as and when required: As disclosed in the announcements and the financial statements of the Company, the Group has been actively negotiating with banks to renew bank loans that have fallen due and other financing related issues. During the course of communication with the banks, the Group understands that all parties hope that the Group can maintain normal operation, and the banks have also expressed that they will not take any radical actions against the Group. Despite the overdue loans, the Directors and the management believe that the likelihood of demands from banks for immediate repayment is not high. Therefore, the operation of the Group would not be significantly affected. In fact, the Group has a record of renewing bank loans successfully. Thus, the Directors and the management believe that the Group is able to repay, renew or extend the bank loans and other liabilities when they fall due.

- Implementing operation plans to enhancing profitability and control costs and to generate adequate cash flows from operations: During 2018, the Directors and the management actively implemented policies to improve profitability and to control costs to reduce the burden of the Group and such policies have been effective. In 2019, the Directors and the management will continue to implement the relevant policies to increase its operating cash flows.

- Taking measures to accelerate the collections of outstanding receivables: In 2019, the Directors and the management will continue their efforts and take various feasible measures to accelerate the collections of outstanding receivables.

Taking into account of the above situation, the Directors consider 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 31 December 2018.

### The views of the Audit Committee and the Directors

With respect to the consolidated financial statements of the Group for the year ended 31 December 2018, the Audit Committee of the Company strictly reviewed the relevant documents and discussed the disagreement between the Directors and the Auditor on the position and view on going concern basis at the meetings of the Audit Committee. The Audit Committee and the Directors share the same position and view on the going concern basis.

### To resolve the disagreement with the Auditor on the going concern basis

As mentioned above and disclosed in note 2, during 2019, the Directors and the management will continue to adopt all feasible measures and make the best endeavor to improve the cash flows and business operation, in order to resolve the disagreements with the Auditor as soon as possible.

- Improvements in net losses

  The Directors believe that when the Group is able to turn its operation from loss-making to profit-making and maintain healthy cash flows to repay bank loans, the uncertainty of the Auditor on the going concern of the Group could then be eliminated. In fact, the operation of the Group has improved in recent years. In 2018, loss arising from the principal business was HK$648 million, representing a significant reduction in loss of 26.5% from 2017, which reflects the management's ability to improve the operation.

## 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. The Audit Committee has also reviewed and provided its view as to the disagreement between the Board and the Independent Auditor. Please refer to the section headed "Responses from the Directors regarding the disclaimer of opinion set out in the Independent Auditor's Report for the year ended 31 December 2018".

## 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 2018 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, 27 March 2019

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