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 2019

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 2019 (the "Review Year") together with the comparative figures of the corresponding period in 2018 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	4	**15,224,976**	12,650,595
Cost of sales		**(14,099,817)**	(11,685,060)
Gross profit		**1,125,159**	965,535
Other net loss	5	**(76,104)**	(64,302)
Distribution expenses		**(483,844)**	(585,219)
Administrative and other operating expenses		**(3,944,923)**	(4,655,430)
Results from operating activities		**(3,379,712)**	(4,339,416)
Finance income		**4,708**	4,163
Finance costs		**(555,313)**	(431,943)
Net finance costs		**(550,605)**	(427,780)
Loss before income tax	6	**(3,930,317)**	(4,767,196)
Income tax (expense)/credit	7	**(5,346)**	10,317
Loss for the year		**(3,935,663)**	(4,756,879)
Attributable to:			
Equity holders of the Company		**(3,940,484)**	(4,758,804)
Non-controlling interests		**4,821**	1,925
Loss for the year		**(3,935,663)**	(4,756,879)
Loss per share			
Basic and diluted	9	**HK$(2.162)**	HK$(2.611)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019** ***HK$'000***	2018 *HK$'000*
Loss for the year		**(3,935,663)**	(4,756,879)
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		**(205,620)**	(339,092)
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary		**–**	8,246
		(205,620)	(330,846)
Total comprehensive income for the year		**(4,141,283)**	(5,087,725)
Attributable to:			
Equity holders of the Company		**(4,144,558)**	(5,087,605)
Non-controlling interests		**3,275**	(120)
Total comprehensive income for the year		**(4,141,283)**	(5,087,725)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**4,134,195**	7,700,791
Investment properties		**202,468**	213,562
Lease prepayments		**1,353,200**	1,787,051
Intangible assets		**–**	8,783
Non-current prepayments and other receivables		**837,888**	1,168,525
Deferred tax assets		**7,877**	7,994
		6,535,628	10,886,706
Current assets			
Inventories		**1,037,256**	705,379
Current portion of lease prepayments		**–**	64,883
Trade and other receivables	*11*	**1,849,079**	1,753,123
Income tax recoverable		**2,507**	1,755
Restricted bank deposits		**39,308**	45,496
Cash and cash equivalents		**217,403**	218,687
		3,145,553	2,789,323
Current liabilities			
Bank and other borrowings	*13*	**5,899,841**	6,355,546
Finance lease liabilities		**–**	410
Lease liabilities		**2,890**	–
Trade and other payables	*12*	**4,315,974**	3,693,322
Income tax payable		**5,334**	4,380
		10,224,039	10,053,658
Net current liabilities		**(7,078,486)**	(7,264,335)
Total assets less current liabilities		**(542,858)**	3,622,371

	Note	2019	2018
		HK$'000	*HK$'000*
Non-current liabilities			
Bank borrowings	*13*	**682,548**	703,678
Finance lease liabilities		**–**	93,664
Lease liabilities		**90,965**	–
Deferred tax liabilities		**89**	206
		773,602	797,548
NET (LIABILITIES)/ASSETS		**(1,316,460)**	2,824,823
EQUITY			
Share capital		**182,276**	182,276
Reserves		**(1,552,739)**	2,591,819
Total equity attributable to equity holders of the Company		**(1,370,463)**	2,774,095
Non-controlling interests		**54,003**	50,728
TOTAL EQUITY		**(1,316,460)**	2,824,823

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 2019 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 25 to 27 of this announcement.

2. BASIS OF PREPARATION

Going concern basis

The Group incurred a net loss of HK$3,935,663,000 (2018: HK$4,756,879,000) for the year ended 31 December 2019 and as at 31 December 2019, the Group had net current liabilities of HK$7,078,486,000 (2018: HK$7,264,335,000). Its current and non-current bank and other borrowings amounted to HK$5,899,841,000 (2018: HK$6,355,546,000) and HK$682,548,000 (2018: HK$703,678,000) as at 31 December 2019 respectively, while the Group maintained its cash and cash equivalents of HK$217,403,000 (2018: HK$218,687,000) only. The Group could not fulfil certain bank covenants relating to certain bank borrowings amounted to HK$4,937,349,000 (2018: HK$5,001,676,000) as at 31 December 2019. These bank borrowings balance was presented as the Group's current bank borrowings in the consolidated statement of financial position. Included in these bank borrowings were HK$2,120,682,000 (2018: HK$2,187,878,000) of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2019 and up to date of this report, the courts in the People's Republic of China ("PRC") have ordered to freeze the Group's bank deposits of HK$21,951,000 (2018: HK$22,043,000) and certain property, plant and equipment with carrying amounts of HK$348,384,000 (2018: HK$520,393,000). 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 borrowings;

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

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

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.

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:

IFRS 16	Leases
IFRIC–Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features and Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes and IAS 23, Borrowing costs

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

The impact of the adoption of IFRS 16 Leases have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the group's accounting policies.

IFRS 16 – Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has initial adopted IFRS 16 from 1 January 2019 and applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 Leases ("IAS 17") and related interpretations. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Group identified leases in accordance with IAS 17 and IFRIC–4 Determining Whether an Arrangement contains a Lease ("IFRIC–4"). The Group assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC–4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term of 12 months or less. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised right-of-use assets and lease liabilities at the commencement date of a lease. The Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The lease payments include: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

C. As a lessor

The Group has leased out its investment property to a number of tenants. As the accounting under IFRS 16 for a lessor is substantially unchanged from the requirements under IAS 17, the adoption of IFRS 16 does not have significant impact on these consolidated financial statements.

D. Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. None of the right-of-use assets were impaired at 1 January 2019.

The Group has also applied the follow practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (ii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC–4 and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC–4.

For those finance leases previously classified as finance leases under IAS 17, the Group recognised the carrying amount of the lease assets and lease liabilities immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities on 1 January 2019.

E. Impact on transition

The table below summaries the impact on the adoption of IFRS 16:

	IAS 17 Carrying amount 31 December 2018	**Reclassification**	**Capitalisation of operating lease contracts**	**IFRS 16 Carrying amount 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Right–of–use assets comprise of				
– Property, plant and equipment	33,395	–	3,372	36,767
– Investment properties	213,562	–	–	213,562
– Lease prepayments	1,787,051	135,806	–	1,922,857
Non-current prepayments and other receivables	1,168,525	(70,923)	–	1,097,602
Current portion of lease prepayments	64,883	(64,883)	–	–
Liabilities				
Lease liabilities	–	94,074	3,372	97,446
Finance leases obligations	94,074	(94,074)	–	–

The table below explains the differences between the operating lease commitments disclosed at 31 December 2018 by applying IAS 17 and the lease liabilities at the date of initial application at 1 January 2019 by applying IFRS 16:

	HK$'000
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitments at 31 December 2018	4,152
Less: short term leases for which lease terms end within 31 December 2019	(722)
Less: future interest expenses	(58)
Add: Finance leases obligations recognised as at 31 December 2018	94,074
Lease liabilities recognised as at 1 January 2019	97,446

The weighted average lessee's incremental borrowing rate at 1 January 2019 was 5%.

F. Impacts for the year

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16.

	Amounts reported under IFRS 16	**Add back: IFRS 16 additional depreciation and interest**	**Deduct: Estimated rental payment related to operating leases under IAS 17**	**Hypothetical amounts under IAS 17**
	HK$'000	*HK$'000*	*HK$'000* *(Note 1)*	*HK$'000*
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Result from operating activities	(3,379,712)	881	(932)	(3,379,763)
Finance costs	555,313	(51)	–	555,262
Loss before income tax	(3,930,317)	830	(932)	(3,930,419)
Loss for the year	(3,935,663)	830	(932)	(3,935,765)

	Amounts reported under IFRS 16	Deduct: Estimated rental payment related to operating leases under IAS 17	Hypothetical amounts under IAS 17
	HK$'000	*HK$'000*	*HK$'000*
		(Note 2)	
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of IFRS 16:			
Net cash generated from operating activities	82,023	(932)	81,091
Net cash used in financing activities	(243,041)	932	(242,109)

Note 1: The "estimated rental payment related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored due to immaterial.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised right–of–use assets of HK$2,491,000 and lease liabilities of HK$2,491,000 as at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised additional depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised additional depreciation of HK$881,000 and additional interests of HK$51,000 from these leases. In contrast, rental expenses decreased by HK$932,000.

The following are the changes in carrying amounts of the Group's right-of-use assets and related lease liabilities during the year:

	Right–of–use assets				
	Properties	**Investment properties**	**Lease prepayments**	**Total**	**Lease liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	36,767	213,562	1,922,857	2,173,186	97,446
Addition	–	–	23,734	23,734	–
Transfer from construction in progress	–	1,849	–	1,849	–
Disposal	–	(414)	(18,136)	(18,550)	–
Depreciation/amortisation	(4,158)	(6,466)	(44,975)	(55,599)	–
Impairment loss	–	–	(429,140)	(429,140)	–
Lease payment	–	–	–	–	(3,682)
Interest	–	–	–	–	2,800
Foreign exchange movement	(835)	(6,063)	(101,140)	(108,038)	(2,709)
At 31 December 2019	31,774	202,468	1,353,200	1,587,442	93,855

IFRIC–Int 23, Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of IAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to IFRS 9, Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures

The amendments clarify that IFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that IFRS 9 is applied to these LTI before the impairment losses guidance within IAS 28.

Annual Improvements to IFRSs 2015-2018 Cycle, Amendments to IFRS 3, Business Combinations

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 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to IFRSs 2015-2018 Cycle, Amendments to IFRS 11, Joint Arrangements

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 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to IFRSs 2015-2018 Cycle, Amendments to IAS 12, Income Taxes

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 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to IFRSs 2015-2018 Cycle, Amendments to IAS 23, Borrowing Costs

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 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

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 2019 and 2018 is set out below:

	Chilled and frozen meat		**Processed meat products**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**13,168,111**	10,482,226	**2,056,865**	2,168,369	**15,224,976**	12,650,595
Inter-segment revenue	**154,447**	212,196	**6,840**	7,805	**161,287**	220,001
Reportable segment revenue	**13,322,558**	10,694,422	**2,063,705**	2,176,174	**15,386,263**	12,870,596
Depreciation and amortisation	**(261,204)**	(357,005)	**(71,479)**	(106,146)	**(332,683)**	(463,151)
Impairment losses on property, plant and equipment and lease prepayments	**(1,541,165)**	(2,451,791)	**(1,613,890)**	(1,462,107)	**(3,155,055)**	(3,913,898)
(Loss)/gain on disposal of property, plant and equipment and lease prepayments	**(57,417)**	(125,048)	**16**	(2,023)	**(57,401)**	(127,071)
(Impairment losses)/ reversal of impairment losses on trade receivables, net	**(499)**	909	**(4,850)**	8,831	**(5,349)**	9,740
Write-off of property, plant and equipment and lease prepayments	**–**	(50,226)	**–**	–	**–**	(50,226)
Government subsidies	**11,031**	10,617	**15,954**	40,399	**26,985**	51,016
Reportable segment loss before income tax	**(1,790,798)**	(2,918,402)	**(1,571,490)**	(1,496,006)	**(3,362,288)**	(4,414,408)
Income tax (expense)/ credit	**(2,184)**	(1,173)	**(3,162)**	11,490	**(5,346)**	10,317

(b) Reconciliations of reportable segment revenue and loss

	2019	2018
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**15,386,263**	12,870,596
Elimination of inter-segment revenue	**(161,287)**	(220,001)
Consolidated revenue	**15,224,976**	12,650,595
Loss		
Total reportable segment loss before income tax	**(3,362,288)**	(4,414,408)
Elimination of inter-segment profit	**(712)**	6,092
	(3,363,000)	(4,408,316)
Gain on disposal of a subsidiary	**–**	85,761
Net finance costs	**(550,605)**	(427,780)
Income tax (expense)/credit	**(5,346)**	10,317
Unallocated head office and corporate expenses	**(16,712)**	(16,861)
Consolidated loss for the year	**(3,935,663)**	(4,756,879)

(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 2019 and 2018, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

5. OTHER NET LOSS

	2019	2018
	HK$'000	*HK$'000*
Government subsidies	**26,985**	51,016
Provision for losses on litigations *(Note 14(ii))*	**(138,994)**	(130,578)
Gain on disposal of a subsidiary *(note (i))*	**–**	85,761
Loss on disposal of lease prepayments	**(16,589)**	(18,203)
Loss on disposal of property, plant and equipment	**(40,812)**	(108,868)
Gain on disposal of investment properties	**1,053**	5,494
Write-off of property, plant and equipment	**–**	(837)
Write-off of lease prepayments	**–**	(49,389)
Rental income	**56,544**	54,740
Sales of scrap	**1,962**	2,508
Sundry income	**33,747**	44,054
	(76,104)	(64,302)

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.

6. LOSS BEFORE INCOME TAX

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

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories	**14,099,817**	11,685,060
Write-down of inventories	**58,228**	4,637
Impairment losses on trade receivables	**15,181**	6,043
Reversal of impairment losses on trade receivables	**(9,832)**	(15,783)
Impairment losses on property, plant and equipment	**2,725,915**	3,584,588
Impairment losses on lease prepayments	**429,140**	329,310
Depreciation	**324,531**	387,614
– Owned property, plant and equipment	**268,932**	379,366
– Right-of-use-assets included:		
– Investment properties	**6,466**	8,248
– Properties	**4,158**	–
– Lease prepayments	**44,975**	–
Operating lease charges in respect of properties previously classified as operating lease under IAS 17	**–**	12,443
Short term lease expenses	**722**	–
Interest on lease liabilities	**2,800**	–
Amortisation of lease prepayments	**–**	67,078
Amortisation of intangible assets	**8,152**	8,475
Interest on bank and other borrowings and lease liabilities (2018: lease obligations), net of capitalized interest expense	**536,318**	400,145
Interest income from bank deposits	**(4,708)**	(4,163)

7. INCOME TAX EXPENSE/(CREDIT)

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

	2019	2018
	HK$'000	*HK$'000*
Current tax expense		
Current year	**4,765**	2,064
Under-provision in respect of prior years	**581**	889
	5,346	2,953
Deferred tax credit		
Reversal of temporary differences	**–**	(13,270)
Income tax expense/(credit) in the consolidated statement of profit or loss	**5,346**	(10,317)

(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 2019 and 2018.

(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 2019 and 2018, 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 2019 and 2018.

(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 2019 (2018: HK$Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2019 is based on the loss attributable to equity holders of the Company for the year of HK$3,940,484,000 (2018: HK$4,758,804,000) and the weighted average number of 1,822,756,000 (2018: 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 2019 and 2018 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 2019 and 2018.

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**413,605**	409,094
Less: Impairment	**(30,202)**	(25,350)
Trade receivables, net	**383,403**	383,744
Bills receivable	**614**	1,437
Value-added tax recoverable	**1,163,589**	1,124,086
Deposits and prepayments	**234,273**	194,002
Others	**67,200**	49,854
	1,849,079	1,753,123

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) of the Group based on invoice date is analysed as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**233,846**	235,300
31 days to 90 days	**109,248**	98,486
91 days to 180 days	**38,715**	49,958
Over 180 days	**1,594**	–
	383,403	383,744

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

	2019	2018
	HK$'000	*HK$'000*
Trade payables *(note (i))*	**613,461**	598,463
Deposits from customers	**90,692**	126,799
Contract liabilities *(note (ii))*	**327,142**	246,029
Salary and welfare payables	**80,867**	78,398
Value-added tax payable	**3,313**	1,530
Payables for acquisitions of property, plant and equipment	**548,490**	614,335
Provision for losses on litigations	**132,954**	136,964
Interest payables	**1,265,499**	820,985
Other payables and accruals	**1,253,556**	1,069,819
	4,315,974	3,693,322

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

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**422,429**	429,363
31 days to 90 days	**150,790**	69,108
91 days to 180 days	**14,466**	27,599
Over 180 days	**25,776**	72,393
	613,461	598,463

(ii) Contract liabilities:

	31 December 2019	31 December 2018
	HK$'000	*HK$'000*
Contract liabilities arising from:		
Sale of goods	**327,142**	246,029

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

	2019	2018
	HK$'000	*HK$'000*
Balance at 1 January	**246,029**	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	**(246,029)**	(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	**327,142**	246,029
Balance at 31 December	**327,142**	246,029

13. BANK AND OTHER BORROWINGS

Certain of the Group's banking facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 31 December 2019, the Group could not fulfil covenants imposed by banks on certain borrowings with an aggregate amount of HK$4,937,349,000 (2018: HK$5,001,676,000). Included in this amount, borrowings of an aggregate amounts of HK$111,632,000 (2018: HK$114,943,000) which were long-term borrowings and were re-classified as current liabilities in the consolidated statement of financial position as at 31 December 2019. The Group is negotiating with the banks to renew bank borrowings at the end of the reporting period. As at the date of approval of the consolidated financial statements, the aforesaid bank borrowings were not yet renewed nor repaid.

At 31 December 2019, there were outstanding litigations commenced by banks in the PRC against certain subsidiaries of the Group requesting such subsidiaries to repay the outstanding bank borrowings of HK$2,120,682,000 (2018: HK$2,187,878,000) or to secure the repayment with assets of equivalent amount immediately. Certain property, plant and equipment of the Group with carrying amounts of HK$348,384,000 (2018: HK$520,393,000) have been frozen by the court in the PRC as of 31 December 2019, in addition to the freezing of restricted bank deposits of HK$21,951,000 (2018: HK$22,043,000) in relation to these litigations. The Group is negotiating with the banks to settle these 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$328,458,000 (2018: HK$326,501,000). 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$196,551,000 (2018: HK$190,682,000) ("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 2019. During the year ended 31 December 2019, 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$92,698,000 (2018: HK$95,447,000) and corresponding late penalties of approximately HK$50,725,000 (2018: HK$40,532,000). 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 annual report, the remaining litigation claims with an aggregate amount of approximately HK$185,034,000 (2018: HK$190,521,000) are still in process, of which an aggregate amount of HK$53,128,000 (2018: HK$54,703,000) had been included in the Provision Amount as at 31 December 2019. In the opinion of the Directors, no further provision for litigation was required to be made for the year ended 31 December 2019.

(ii) During the year ended 31 December 2019, there were litigations initiated by municipal people's governments in the PRC claiming against certain subsidiaries of the Group in view of the suspension of the development in certain areas, for immediate cash repayment of approximately HK$138,994,000 (2018: HK$130,578,000). The Group recognised losses of HK$138,994,000 (2018: HK$130,578,000) as "provision for losses on litigations in "other net loss" in the consolidated statement of profit or loss for the year ended 31 December 2019.

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 2019, 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 2019:

"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 accumulated effects on the consolidated financial statements as described in the "Basis for Disclaimer of Opinion" section of our report. In all other aspects, 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$3,935,663,000 for the year ended 31 December 2019 and as at 31 December 2019, the Group had net current liabilities of HK$7,078,486,000. Its current and non-current bank and other borrowings amounted to HK$5,899,841,000 and HK$682,548,000 as at 31 December 2019 respectively, while the Group maintained its cash and cash equivalents of HK$217,403,000 only. In addition, as disclosed in note 3(b) and note 27(i) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to certain bank borrowings amounted to HK$4,937,349,000 as at 31 December 2019. Included in these bank borrowings were HK$2,120,682,000 of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2019 and up to date of this report, the courts in the People's Republic of China ("PRC") have ordered to freeze the Group's bank deposits of HK$21,951,000 and certain property, plant and equipment with carrying amounts of HK$348,384,000. Details of these litigations are set out in note 27 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 borrowings; (ii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required; and (iii) the Group is able to implement its operation plans to enhance profitability and control costs and to generate adequate cash flows from operations. 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.

We disclaimed the auditor opinion on the consolidated financial statements for the year ended 31 December 2018 ("2018 consolidated financial statements") relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2018 would affect the balances of these financial statements items as at 1 January 2019 and the corresponding movements, if any, during the year ended 31 December 2019. The balances as at 31 December 2018 and the amounts for the year then ended are presented as corresponding figures in the consolidation financial statements for the year ended 31 December 2019. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2019 ("2019 consolidated financial statements") also for the possible effect of the disclaimer of audit opinion on 2018 consolidated financial statements on the comparability of 2019 figures and 2018 figures in 2019 consolidated financial statements.

Comparative figures in relation to certain non-financial assets

The directors of the Company have performed impairment assessment of the Group's property, plant and equipment, lease prepayments, intangible assets and non-current prepayments (the "Non-financial Assets") according to International Accounting Standard 36 Impairment of Assets as at 31 December 2017. 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 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.

The matter giving rise to the predecessor auditor's disagreement summarised in the paragraph immediate above was not resolved in our audit of the 2018 and 2019 consolidated financial statements. As a result, the impairment losses of HK$3,584,588,000 and HK$329,310,000 on the Group's property, plant and equipment and lease prepayments respectively recognised for the year ended 31 December 2018 were overstated but we were not able to quantify the amount. The misstatement had consequential impacts on the amounts of depreciation charge and amortisation on the Non-financial Assets for the year ended 31 December 2018. The impairment losses, depreciation charge and amortisation on the Non-financial Assets for the year ended 31 December 2018 included in 2019 consolidated financial statements as corresponding figures are therefore not comparable to the respective 2019 figures.

Other matter

Had we not disclaimed our opinion, we would have issued a qualified opinion on the basis that the depreciation charge, amortisation and impairment losses on the Non-financial Assets for the year ended 31 December 2018 are not comparable to the respective amounts recognised for the year ended 31 December 2019."

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Thursday, 18 June 2020. 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 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the Review Year, continuous challenges from external risks as well as the frenetic global economy clouded the market with uncertainties. In 2019, the contribution from consumption to economic growth was 57.8%, fueling economic growth by 3.5% and remaining the key driving force of economic growth for six consecutive years.

According to the data published by the National Bureau of Statistics of the PRC, the gross domestic product (GDP) increased by 6.1% as compared to that in 2018, and GDP per capita exceeded the benchmark of US$10,000. Revenue from food and beverage sector increased by 9.4% as compared to that of previous year, maintaining a steady yet rapid growth. The national disposable income per capita grew in line with the economy and rose by 5.8% net of price fluctuations.

Affected by the impact of the African Swine Fever outbreak and the periodic changes superimposed, the number of hogs slaughtered in 2019 was 554.19 million, representing a year-on-year decrease of 21.6%; and the number of hog stock on hand was 310.41 million, down by 27.5% on a year-on-year basis. During the Review Year, the output of pork significantly decreased by 21.3% to 42.55 million tons, pork price continued to rise, and fell slightly by the end of the year. Against the backdrop of the economic environment and the rapid rise in pork prices, all the companies in the industry were under pressure.

During the Review Year, the Chinese government continued to strengthen the prevention and control of African Swine Fever, and issued several documents requiring standardization of hog breeding and quarantine of hog products. The General Office of the Ministry of Agriculture has revised the Hog Inspection and Quarantine Regulations (生豬產地檢疫規程), Hog Slaughter and Quarantine Regulations (生豬屠宰檢疫規程) and the Regulations on the Inter-provincial Delivery and Inspection and Quarantine of Diary Breeding Animals (跨省調運乳用種用動物產地檢疫規程). Meanwhile, the Office paid high attention to hog and quarantine of hog products, enhanced quarantine standards, earnestly performed its duty to quarantine for prevention of further spread of African Swine Fever and ensured food safety. In addition, the Ministry of Agriculture and Rural Affairs also issued the Three-year Action Plan to Accelerate the Restoration and Development of Hog Production (加快生豬生產恢復發展三年行動方案), focusing on stabilising hog production and guaranteeing pork supply. The Plan states that in future, the development of hog slaughtering and processing enterprises will be further standardised, the allocation of hog slaughtering capacity in main production areas will be further optimised, rectification and clearing of small slaughterhouses will continue; and financial support for the hog breeding industry will also be increased to lower breeding risks. The board of directors (the "Board") believes that under the implementation of policies by the government to eliminate substandard slaughterhouses and stabilise hog production and supply, the Group will capture the opportunities arising therefrom and leverage on its core competitiveness in resources, strategies and branding to promote steady business development until African Swine Fever is controlled.

Against all uncertainties during the Review Year, the management of China Yurun Food Group Limited ("Yurun Food" or the "Company") and its subsidiaries (collectively, the "Group") adopted a more prudent strategy and continued to adhere to the Group's corporate mission to provide quality meat products for consumers amid the difficult market environment.

BUSINESS REVIEW

During the Review Year, struck by economic fluctuations and the epidemics, pork price rose sharply. Pork price picked up rapidly from March, and surged in November to about 2.3 times compared with that as of March, representing that the Group's average purchase price of pork in the second half of the year doubled compared with that in the first half. Under the epidemics and high prices, consumers reduced their demand for pork and tended to select cheaper poultry as substitute. Under this condition, the sales volume and gross profit of the Group were inevitably affected.

The Directors believe that the relevant national policy concerning African Swine Fever would have impact on the hog slaughtering industry and even on the integration and development of the meat products industry over a period of time. As a renowned meat products processing enterprise in China, Yurun Food has a nationwide presence in sales network with brand recognition and leading testing and inspection capabilities. These advantages will continue to yield positive effect on our future operation. As one of the leading enterprises in the industry, the Group strengthened its prevention of the epidemics during this period to ensure product safety, in order to supply safe and assured products to consumers.

Product Quality and Research and Development

As one of the leaders in the industry, Yurun Food has several products which have been well received by the market for years. Apart from the three Chinese renowned 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)" and the two well-known trademarks, namely "Yurun (雨潤)" and "Haroulian (哈肉聯)", the Group also owns a China Time-honored Brand, "Popular Meat Packing (大眾肉聯)". Yurun Food has been adhering to our philosophy, "You trust because we care", all along the years in leading the industry through technical research and development and in ensuring product quality through advanced production processes and technologies.

Yurun Food was awarded "2018 Leading Brand in Sales" (2018年度市場銷售領先品牌) and "Preferred Band of High-quality Development" (高質量發展優選品牌) at 2019 (the 27th) 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 April 2019. The Group will continue to ensure high product quality, and adjust the product mix and focus on the research and development of new products according to market demand, thereby further reinforcing its competitive edge and maintaining its leading position in the industry.

Yurun and the State Key Laboratory of Food and Quality Control has had good "industry-university-research" cooperation with Nanjing Agricultural University for many years, under which, research and development was conducted and commercialization was studied to address flavor and quality control issues of traditional Chinese cured meat products and the gel texture of low-temperature meat products. These efforts provided effective solutions to address major technical problems in meat product production, filling the gap in domestic technology in this field and greatly generating significant social and economic benefits after commercialization.

As a time-honored brand, Yurun Food has fully catered the tastes of our regular customers with high-quality food. The Group, however, never stops our efforts. During the Review Year, the Group constantly launched new packaging, new online promotion and new slogans to attract young customer base. Through ongoing changes and transformation, we can become more energized and are able to introduce Yurun's quality products and pass Yurun's taste on to our young generations.

Sales and Distribution

Chilled pork and low temperature meat products ("LTMP"), the Group's products with higher added value, remained the key business drivers of the Group during the Review Year. In 2019, sales of chilled pork of the Group was HK$11.400 billion (2018: HK$9.668 billion), representing an increase of 17.9% over last year, accounting for approximately 74% (2018: 75%) of the total revenue of the Group prior to inter-segment eliminations and approximately 86% (2018: 90%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.825 billion (2018: HK$1.922 billion), representing a decrease of 5.1% over last year, accounting for approximately 12% (2018: 15%) of the total revenue of the Group prior to inter-segment eliminations and approximately 88% (2018: 88%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

The Group adjusted its expansion pace according to market changes and its business conditions in strict compliance with its principle of investment cost control.

As at 31 December 2019, the annual production capacity of the Group's upstream slaughtering and downstream processed meat product segment was approximately 52.65 million heads and 312,000 tons respectively, comparable to the production capacity as at 31 December 2018.

Financial Review and Key Performance Indicators

The Group recorded revenue of HK$15.225 billion in 2019, representing an increase of 20.3% from HK$12.651 billion last year. During the Review Year, despite the provision of approximately HK$3.155 billion (2018: HK$3.914 billion) made by the Group for impairment losses on non-current assets as well as operating losses and other one-off losses, the loss attributable to equity holders significantly decreased by 17.2% from HK$4.759 billion last year to HK$3.940 billion. Basic and diluted loss per share was HK$2.162, representing a reduction in loss per share of approximately 17.2% from HK$2.611 last year.

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, net foreign exchange loss, impairment losses, provision for losses on litigations and other one-off losses, was HK$598 million (2018: HK$648 million), representing a reduction in loss of approximately 7.6% from last 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 over the past few years and the Group's operating pressure during the relevant years, the Board performed impairment assessment on relevant non-current assets of the Group according to the requirement of the "International Accounting Standard 36 – Impairment of Assets" (the "IAS 36") and made appropriative provision for impairment losses.

The Company and its current auditor reached a consensus on the impairment assessment of non-current assets as at 31 December 2018. However, the predecessor auditor did not agree with the impairment assessment conducted by the Company in 2017, and considered the impairment losses recognised in the consolidated financial statements of the Group for the year ended 31 December 2017 were understated and the carrying amounts of non-current assets therein was overstated. Therefore, the current auditor considered that the amount of impairment losses on non-current asset (being a profit and loss item) recognised for the year ended 31 December 2018 was overstated. As such, the current auditor would express a qualified opinion regarding the comparative figures (for the year 2018) for amounts of impairment losses (being a profit and loss item) during the Review Year.

As at 31 December 2019, the Directors and the management evaluated the non-current assets of the Group in accordance with the requirements of IAS 36. In the evaluation, taking into account the continued decline of China's and global economy in 2019, along with the impact of African Swine Fever on the industry, our business operation during the Review Year was behind our expectation. These two factors were expected to have ongoing negative impact on the business of the Group in 2020. Due to these external factors, the management made more conservative adjustments to the assumptions used in the cash flow forecast for the next five years when assessing the recoverable amount of each cash-generating unit. Taken into account the valuation of certain assets appraised by an independent professional valuer, the Group made a provision for impairment losses of approximately HK$3.155 billion (2018: HK$3.914 billion) during the Review Year. Although such amount was material, the impairment losses of non-current assets is an accounting losses and a non-cash item and will not affect the cash flow of the Group's operating activities.

Revenue

Chilled and Frozen Pork

Pork price in China kept rising from March 2019 and declined slightly by the end of 2019, representing an overall increase by about 2 times as compared with that in the beginning of year. During the Review Year, the average purchase price of hogs of the Group increased by approximately 60% compared to that in 2018, and the slaughtering volume amounted to approximately 6.24 million heads, representing a decrease of approximately 5.6% over last year. In 2019, the total revenue from the upstream business prior to inter-segment eliminations increased by 24.6% to HK$13.323 billion (2018: HK$10.694 billion). Among which, sales of chilled pork increased by 17.9% to HK$11.400 billion (2018: HK$9.668 billion), accounting for approximately 74% (2018: 75%) of the Group's total revenue prior to inter-segment eliminations and approximately 86% (2018: 90%) of the total revenue of the upstream business of the Group. Sales of frozen pork increased by 87.4% to HK$1.923 billion (2018: HK$1.026 billion), accounting for approximately 14% (2018: 10%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products of the Group prior to inter-segment eliminations was HK$2.064 billion (2018: HK$2.176 billion), representing a decrease of 5.2% over last year.

Specifically, revenue of LTMP was HK$1.825 billion, representing a decrease of 5.1% from HK$1.922 billion of last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 88% (2018: 88%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$239 million (2018: HK$254 million), accounting for approximately 12% (2018: 12%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 16.5% from HK$966 million in 2018 to HK$1.125 billion during the Review Year. Overall gross profit margin decreased by 0.2 percentage point to 7.4% from 7.6% of last year. Hog prices rose sharply during the Review Year, resulting in increasing pressure on sales. The gross profit margin of the upstream business dropped slightly in the second half of the year, but such impact was offset by the increase in selling price of downstream processed meat products.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 4.8% and 1.2% respectively (2018: 5.2% and 1.0% respectively). The overall gross profit margin of the upstream segment was 4.3%, representing a decrease of 0.5 percentage point from 4.8% of last year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 21.9%, representing an increase of 2.5 percentage points from 19.4% of last year. Gross profit margin of HTMP was 30.8%, representing an increase of 0.8 percentage point from 30.0% of last year. The overall gross profit margin of the downstream segment was 22.9%, representing an increase of 2.2 percentage points from 20.7% of last year.

Other Net Loss

During the Review Year, other net loss of the Group was HK$76.10 million (2018: HK$64.30 million), it was mainly attributable to non-recurring losses, including provision for losses on litigations (please refer to the section headed "Contingent Liabilities" for details) and loss on disposal 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$4.429 billion, representing a decrease of 15.5% from HK$5.241 billion of last year and including the provision of HK$3.155 billion (2018: HK$3.914 billion) on impairment losses of non-current assets. Operating expenses excluding impairment losses was HK$1.274 billion, representing a decrease of 4.0% as compared to HK$1.327 billion of last year and accounting for 8.4% (2018: 10.5%) of the Group's revenue. The decrease in operating expenses was mainly due to the effective cost control measures implemented by the management, that reduced promotional expenses, transportation costs and wages etc.

Results of Operating Activities

During the Review Year, operating loss of the Group was HK$3.380 billion (2018: HK$4.339 billion), representing a significant reduction in operating loss of 22.1% from last year.

Finance Costs

During the Review Year, net finance costs of the Group increased by 28.7% to HK$551 million compared to HK$428 million of last year. The increase in net finance costs was mainly due to the increase in default interests on bank and other borrowings.

Income Tax

Income tax expense for the Review Year was approximately HK$5.35 million as compared to the income tax credit of HK$10.32 million last year.

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$3.940 billion (2018: HK$4.759 billion), representing a reduction in loss of 17.2% from last year. 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 loss, impairment losses, provision for losses on litigations and other one-off losses, was HK$598 million (2018: HK$648 million), representing a reduction in loss of approximately 7.6% from last year.

FINANCIAL RESOURCES

As at 31 December 2019, the Group's cash balance together with restricted bank deposits were HK$257 million, representing a decrease of approximately HK$7.47 million from HK$264 million as at 31 December 2018. Approximately 96% (31 December 2018: 91%) of the above-mentioned financial resources was denominated in Hong Kong Dollars or Renminbi ("RMB"), and approximately 4% (31 December 2018: 8.5%) was denominated in US Dollars, while the rest was denominated in other currencies.

As at 31 December 2019, the Group had outstanding bank and other borrowings of HK$6.582 billion, representing a decrease of HK$477 million from HK$7.059 billion as at 31 December 2018, of which bank borrowings of HK$5.900 billion (31 December 2018: HK$6.356 billion) are repayable within one year. Please refer to paragraphs headed "Breach of Loan Agreements" below for the details of breach of loan agreements of certain bank borrowings of the Group.

All borrowings were denominated in RMB, which were the same with the borrowings as at 31 December 2018. As at 31 December 2019, the Group's fixed-rate debt ratio was 80.3% (31 December 2018: 81.0%).

Net cash outflow of the Group during the Review Year was mainly used for repayments of borrowings.

During the Review Year, the capital expenditure was HK$131 million (31 December 2018: HK$82.75 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 2019, the Group could not fulfil the covenants in respect of certain bank borrowings with an aggregate amount of approximately HK$4.937 billion (31 December 2018: HK$5.002 billion), of which HK$112 million (31 December 2018: HK$115 million), being an aggregate amount of certain long-term bank borrowings, was re-classified as current liabilities in the consolidated statement of financial position. As at the date of this announcement, the aforesaid bank borrowings were not renewed and repaid (31 December 2018: repayment of bank borrowings of HK$3.00 million).

The Group has kept close communication with the banks regarding the above matters and the renewal of those matured bank borrowings. 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 2019, the total assets of the Group were HK$9.681 billion (31 December 2018: HK$13.676 billion), representing a decrease of approximately HK$3.995 billion as compared with that as at 31 December 2018. Its total liabilities were HK$10.998 billion (31 December 2018: HK$10.851 billion), representing an increase of approximately HK$146 million as compared with that as at 31 December 2018.

As at 31 December 2019, the property, plant and equipment of the Group amounted to HK$4.134 billion (31 December 2018: HK$7.701 billion), representing a decrease of approximately HK$3.567 billion as compared with that as at 31 December 2018. The decrease was mainly due to the provision on the impairment losses of certain assets of approximately HK$2.726 billion (2018: HK$3.585 billion), disposal of property, plant and equipment with a carrying amount of approximately HK$305 million (2018: HK$529 million) during the Review Year, and the decrease of approximately HK$267 million (2018: HK$287 million) in the carrying amount of property, plant and equipment as at 31 December 2019 resulting from foreign exchange change arising from depreciation of RMB during the Review Year.

Lease prepayments as at 31 December 2019 amounted to HK$1.353 billion (31 December 2018: HK$1.852 billion). This represented the purchase cost of land use rights of the Group which was amortised on a straight-line basis over the respective period of the rights. The lease prepayments decreased by HK$434 million as compared with that of last year mainly due to the impairment losses of approximately HK$429 million (2018: HK$329 million) during the Review Year.

Non-current prepayments and other receivables of the Group mainly represented the prepayments for acquisitions of property, plant and equipment and the non-current portion of value-added tax recoverable. As at 31 December 2019, it amounted to HK$108 million (31 December 2018: HK$219 million) and HK$730 million (31 December 2018: HK$949 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortize yet.

The Group has made a provisions on impairment losses of approximately HK$3.155 billion during the Review Year. Due to such provision and its operating losses, the equity attributable to equity holders of the Company changed from the position of net assets of HK$2.774 billion as at 31 December 2018 to the position of net liabilities of HK$1.370 billion as at 31 December 2019. Although the Group was in a position of net liabilities as at 31 December 2019, the Group had non-current assets of approximately HK$6.536 billion to support the daily production and operations of the Group. Such position has not materially impaired the Group's ability to continue its daily business operation. The Directors believe that leveraged with the improvement in the economic environment and the management's proactive efforts to keep improving its operating profit and reducing pressure from borrowings, we are confident that the Group will return back to the net assets position.

During the Review Year, the Group recorded a net loss of HK$3.936 billion (2018: HK$4.757 billion). As at 31 December 2019, net current liabilities of the Group were HK$7.078 billion (31 December 2018: HK$7.264 billion). Its total bank and other borrowings amounted to HK$6.582 billion (31 December 2018: HK$7.059 billion), of which HK$5.900 billion (31 December 2018: HK$6.356 billion) is due within 12 months from that date. As mentioned above, although the Group failed to fulfil the contractual terms of certain bank borrowings and some subsidiaries of the Group are facing various litigations, the Group has been in active negotiations with banks on renewal and waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank loans. The negotiations have been relatively optimistic. In addition, the Group will implement operating plans to increase profitability and control costs to generate sufficient operating cash flows. In view of these, the Directors believe that the Group has sufficient financial resources to finance operations and to meet financial obligations as and when they fall due within the next twelve months from the end of the Review Year.

As at 31 December 2019, the total debt/gearing ratio (total debt represented by the sum of bank and other borrowings divided by the sum of total debt and equity attributable to shareholders) of the Group was 126.3% (31 December 2018: 71.8%). As at 31 December 2019, after excluding cash in bank and restricted bank deposits, the net debt/net gearing ratio was 121.4% (31 December 2018: 69.1%).

CHARGES ON ASSETS

As at 31 December 2019, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK$1.568 billion (31 December 2018: HK$2.615 billion), certain investment properties of the Group with a carrying amount of HK$42 million (31 December 2018: HK$104 million), certain lease prepayments of the Group with a carrying amount of approximately HK$685 million (31 December 2018: HK$984 million), and certain trade receivables of the Group with a carrying amount of approximately HK$6 million (31 December 2018: HK$28 million) were pledged against certain bank borrowings with a total amount of approximately HK$3.862 billion (31 December 2018: HK$3.949 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 takes a more prudent approach on capital expenditure for 2020. The preliminary approved capital expenditure plan for 2020 is expected to be approximately RMB150 million, which will be used mainly for the payment for the construction in progress of projects already commenced, regular maintenance of factories and upgrades of equipment. As at the date of this announcement, such budget and plan are yet to be finalized and the Group has not identified any particular target or opportunity at this stage.

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

CONTINGENT LIABILITIES

As at 31 December 2019, there were outstanding litigations initiated by banks in the PRC against certain subsidiaries of the Group demanding them to secure an immediate repayment of the outstanding bank borrowings of approximately HK$2.121 billion (31 December 2018: HK$2.188 billion) or otherwise assets of equivalent amount. As at 31 December 2019, certain assets of the Group with a carrying amount of approximately HK$348 million (31 December 2018: HK$520 million) were frozen by the courts in the PRC, including the restricted bank deposits of approximately HK$22 million (31 December 2018: HK$22 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 an aggregate construction fee together with the late penalties of approximately HK$328 million (31 December 2018: HK$327 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$197 million (31 December 2018: HK$191 million) for the settlement of the aforesaid construction fee and penalties. Provision for such amounts has been made accordingly. Pursuant to the judgments, the Group was ordered to make an immediate payment of construction fee payables of approximately HK$93 million (31 December 2018: HK$95 million) and the corresponding late penalties of approximately HK$51 million (31 December 2018: HK$41 million) during the Review year. As of the date of this announcement, litigations regarding the remaining claims of approximately HK$185 million (31 December 2018: HK$191 million) are still in progress.

During the Review Year, there were outstanding litigations initiated by certain local governments in the PRC against certain subsidiaries of the Group demanding an immediate cash repayment of approximately HK$139 million (31 December 2018: HK$131 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 2019, the Group had approximately 9,400 (31 December 2018: approximately 10,000) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$603 million, accounting for 4.0% of the revenue (2018: HK$626 million, accounting for 5.0% of the revenue) of the Group.

The Group offered its employees competitive remuneration and other employee benefits, including contributions to social security schemes, such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance linked bonus and a share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources to provide continuing education and training to 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 impact of its existing production and business activities on the environment. 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.

Response from the Directors regarding the disclaimer of opinion set out in the Independent Auditor's Report for the year ended 31 December 2019

Disagreement between the Directors and the independent auditor

BDO Limited (the "Auditor"), the independent auditor of the Company, stated in the Independent Auditor's Report (the "Independent Auditor's Report) in the 2019 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 3(b) to the consolidated financial statements of the Group for 2019, 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 2019 and 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, as stated in the Independent Auditor's Report, the Auditor was unable to obtain sufficient supporting bases to assess the appropriateness and reasonableness of the use of the going concern assumption and thus unable to form an opinion of the basis. Although the Directors explained the situation to the Auditor, it is difficult for the Directors to provide such supporting evidence that the Auditor considers sufficient at this stage, in view of the differences in the weight of the Chinese political, legal and economic considerations.

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 borrowings, litigations, etc., the Directors and the management have been actively tackling these problems. The efforts include, without limitation to:

- Actively negotiating with banks to waive the repayable on demand clause and breach of certain undertakings and requirements of restrictive covenants, and to obtain additional new financing and other sources of assets: As disclosed in the announcements and the financial statements of the Company, the Group has been in active negotiation with banks to renew bank loans that have fallen due and other related financing matters. 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 borrowings, 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.

- Improving profitability, controlling costs and generating sufficient operating cash flow: The Directors and the management actively enhanced profitability and control costs in 2019 to reduce the burden on the Group, and such policies are effective. In 2020, the Directors and the management will continue to execute the relevant policies to increase the operating cash flows.

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 2019.

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 2019, the Audit Committee of the Company reviewed the relevant documents strictly 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.

Resolving differences in opinion on the going concern basis with Auditors

As stated in note 3(b) to the consolidated financial statements and disclosed above, the Directors and the management continued to take all feasible measures in 2019, and made their best efforts to improve cash flows and keep improving the Group's business so as to resolve the differences in opinion 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 to profit and maintain healthy cash flows to repay bank loans, the uncertainty of the Auditor on the going concern of the Group could be eliminated. In fact, the operation of the Group has been improving over these recent years. In 2019, loss arising from the principal business reduced by 7.6% from 2018 to HK$598 million, reflecting 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 (the "CG Code") set out in Appendix 14 to the Listing Rules throughout the Review Year, except for the matter disclosed below:

In compliance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Nonetheless, the Company appointed Ms. Zhu Yuan as both its chairman and chief executive officer on 28 March 2019. The Board believes that vesting the roles of the chairman and the chief executive officer in the same person would allow the Company to be more effective and efficient in developing business strategies and executing business plans and is beneficial to the business prospects and management of the Group. The Board believes that the balance of power can be ensured by the composition of the Board which include members who are experienced and technical individuals and of which more than half are independent non-executive directors. In the long run, the Company would source and appoint suitable individual to take up the role of chief executive officer.

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.

EVENTS AFTER THE REVIEW YEAR

Save as disclosed in this announcement, there was no other significant event occurred subsequent to 31 December 2019 and up to the date of this announcement.

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 2019".

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 2019 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
Zhu Yuan
Chairman & CEO

Hong Kong, 27 March 2020

As at the date of this announcement, the Executive Directors are Zhu Yuan (Chairman & CEO) and Yang Linwei; the Independent Non-Executive Directors are Gao Hui, Chen Jianguo and Miao Yelian.