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 2020

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 2020 (the "Review Year") together with the comparative figures of the corresponding period in 2019 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	**2020** *HK$'000*	2019 *HK$'000*
Revenue	*4*	**15,213,237**	15,224,976
Cost of sales		**(14,440,180)**	(14,099,817)
Gross profit		**773,057**	1,125,159
Other net income/(loss)	*5*	**137,262**	(76,104)
Distribution expenses		**(562,607)**	(483,844)
Administrative and other operating expenses		**(1,968,629)**	(3,944,923)
Results from operating activities		**(1,620,917)**	(3,379,712)
Finance income		**3,390**	4,708
Finance costs		**(370,228)**	(555,313)
Net finance costs		**(366,838)**	(550,605)
Loss before income tax	*6*	**(1,987,755)**	(3,930,317)
Income tax expenses	*7*	**(23,951)**	(5,346)
Loss for the year		**(2,011,706)**	(3,935,663)
Attributable to:			
Equity holders of the Company		**(2,019,264)**	(3,940,484)
Non-controlling interests		**7,558**	4,821
Loss for the year		**(2,011,706)**	(3,935,663)
Loss per share			
Basic and diluted	*9*	**HK$(1.108)**	HK$(2.162)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
Loss for the year		**(2,011,706)**	(3,935,663)
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		**105,824**	(205,620)
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary		**(14,278)**	–
		91,546	(205,620)
Total comprehensive income for the year		**(1,920,160)**	(4,141,283)
Attributable to:			
Equity holders of the Company		**(1,931,498)**	(4,144,558)
Non-controlling interests		**11,338**	3,275
Total comprehensive income for the year		**(1,920,160)**	(4,141,283)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	**2020** *HK$'000*	2019 *HK$'000*
Non-current assets			
Property, plant and equipment		**3,788,273**	4,134,195
Investment properties		**207,600**	202,468
Lease prepayments		**1,025,661**	1,353,200
Intangible assets		**59**	–
Non-current prepayments and other receivables		**776,483**	837,888
Deferred tax assets		**–**	7,877
		5,798,076	6,535,628
Current assets			
Inventories		**610,585**	1,037,256
Trade and other receivables	*11*	**2,424,614**	1,849,079
Income tax recoverable		**2,341**	2,507
Restricted bank deposits		**13,316**	39,308
Cash and cash equivalents		**307,550**	217,403
		3,358,406	3,145,553
Current liabilities			
Bank and other borrowings	*13*	**6,997,149**	5,899,841
Lease liabilities		**2,059**	2,890
Trade and other payables	*12*	**5,291,928**	4,315,974
Income tax payable		**12,403**	5,334
		12,303,539	10,224,039
Net current liabilities		**(8,945,133)**	(7,078,486)
Total assets less current liabilities		**(3,147,057)**	(542,858)

	Note	**2020**	2019
		HK$'000	*HK$'000*
Non-current liabilities			
Bank borrowings	*13*	**–**	682,548
Lease liabilities		**97,500**	90,965
Deferred tax liabilities		**–**	89
		97,500	773,602
NET LIABILITIES		**(3,244,557)**	(1,316,460)
EQUITY			
Share capital		**182,276**	182,276
Reserves		**(3,484,237)**	(1,552,739)
Total equity attributable to equity holders of the Company		**(3,301,961)**	(1,370,463)
Non-controlling interests		**57,404**	54,003
TOTAL EQUITY		**(3,244,557)**	(1,316,460)

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 2020 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 18 to 19 of this announcement.

2. BASIS OF PREPARATION

Going concern basis

The Group incurred a net loss of HK$2,011,706,000 (2019: HK$3,935,663,000) for the year ended 31 December 2020 and as at 31 December 2020, the Group had net current liabilities of HK$8,945,133,000 (2019: HK$7,078,486,000). Its current bank and other borrowings amounted to HK$6,997,149,000 (2019: HK$5,899,841,000) as at 31 December 2020, while the Group maintained its cash and cash equivalents of HK$307,550,000 (2019: HK$217,403,000) only. The Group could not fulfil certain bank covenants relating to bank borrowings amounted to HK$5,972,672,000 (2019: HK$4,937,349,000) as at 31 December 2020 (note 13). 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$2,305,940,000 (2019: HK$2,120,682,000) of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2020 and up to date of approval of these consolidated financial statements, the courts in the People's Republic of China (the "PRC") have ordered to freeze the Group's bank deposits of HK$13,316,000 (2019: HK$21,951,000) and certain property, plant and equipment with carrying amounts of HK$136,290,000 (2019: HK$348,384,000) (note 13). These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

For the purpose of assessing going concern, the management have prepared a cash flow forecast covering a period of 12 months from end of the reporting period with the following measures to mitigate the liquidity pressure and to improve its financial position taken into account:

(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.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned above, 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.

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 3	Definition of a Business
Amendments to IAS1 and IAS 8	Definition of material
Amendments to IAS 39, IFRS 7 and IFRS 9	Interests Rate Benchmark Reform
Amendments to IFRS 16	Covid-19-Related Rent Concessions

None of these new or amended IFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended IFRSs that is not yet effective for the current accounting period.

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 2020 and 2019 is set out below:

	Chilled and frozen meat		Processed meat products		Total	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**12,827,575**	13,168,111	**2,385,662**	2,056,865	**15,213,237**	15,224,976
Inter-segment revenue	**103,220**	154,447	**8,403**	6,840	**111,623**	161,287
Reportable segment revenue	**12,930,795**	13,322,558	**2,394,065**	2,063,705	**15,324,860**	15,386,263
Depreciation and amortisation	**(236,877)**	(261,204)	**(64,140)**	(71,479)	**(301,017)**	(332,683)
Impairment losses on property, plant and equipment and lease prepayments	**(1,110,059)**	(1,541,165)	**(69,213)**	(1,613,890)	**(1,179,272)**	(3,155,055)
Gain/(loss) on disposal of property, plant and equipment and lease prepayments	**33,499**	(57,417)	**24,792**	16	**58,291**	(57,401)
Impairment losses on trade receivables, net	**(22,403)**	(499)	**(82,328)**	(4,850)	**(104,731)**	(5,349)
Government subsidies	**39,653**	11,031	**670**	15,954	**40,323**	26,985
Reportable segment (loss)/ profit before income tax	**(1,568,002)**	(1,790,798)	**3,587**	(1,571,490)	**(1,564,415)**	(3,362,288)
Income tax expenses	**(3,562)**	(2,184)	**(20,389)**	(3,162)	**(23,951)**	(5,346)

(b) Reconciliations of reportable segment revenue and loss

	2020	2019
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**15,324,860**	15,386,263
Elimination of inter-segment revenue	**(111,623)**	(161,287)
Consolidated revenue	**15,213,237**	15,224,976
Loss		
Total reportable segment loss before income tax	**(1,564,415)**	(3,362,288)
Elimination of inter-segment loss/(profit)	**1,358**	(712)
	(1,563,057)	(3,363,000)
Loss on disposal of a subsidiary	**(37,772)**	–
Net finance costs	**(366,838)**	(550,605)
Income tax expenses	**(23,951)**	(5,346)
Unallocated head office and corporate expenses	**(20,088)**	(16,712)
Consolidated loss for the year	**(2,011,706)**	(3,935,663)

(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 2020 and 2019, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

5. OTHER NET INCOME/(LOSS)

	2020	2019
	HK$'000	*HK$'000*
Government subsidies	**40,323**	26,985
Provision for losses on litigations *(note 14(ii))*	**(4,159)**	(138,994)
Loss on disposal of a subsidiary	**(37,772)**	–
Gain/(loss) on disposal of right-of-use assets *(note (i))*	**30,796**	(15,536)
Gain/(loss) on disposal of property, plant and equipment	**27,302**	(40,812)
Rental income	**68,259**	56,544
Sales of scrap	**1,534**	1,962
Sundry income	**10,979**	33,747
	137,262	(76,104)

Note:

(i) Gain/(loss) on disposal of right-of-use assets represented the net of (i) gain on disposal of lease prepayments of HK$30,989,000 (2019: loss on disposal of HK$16,589,000) and (ii) loss on disposal of investment properties of HK$193,000 (2019: gain on disposal of HK$1,053,000).

6. LOSS BEFORE INCOME TAX

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

	2020	2019
	HK$'000	*HK$'000*
Cost of inventories	**14,440,180**	14,099,817
Write-down of inventories	**4,529**	58,228
Impairment losses on trade receivables	**109,248**	15,181
Reversal of impairment losses on trade receivables	**(4,517)**	(9,832)
Impairment losses on property, plant and equipment	**805,609**	2,725,915
Impairment losses on lease prepayments	**373,663**	429,140
Depreciation		
– Owned property, plant and equipment	**231,329**	268,932
– Right-of-use-assets included:		
– Investment properties	**8,281**	6,466
– Properties	**3,942**	4,158
– Lease prepayments	**57,463**	44,975
Short term lease expenses	**349**	722
Interest on lease liabilities	**78**	2,800
Amortisation of intangible assets	**2**	8,152
Interest on bank and other borrowings, net of capitalized interest expense	**429,732**	533,518
Interest income from bank deposits	**(3,390)**	(4,708)

7. INCOME TAX EXPENSES

Income tax expenses in the consolidated statement of profit or loss represents:

	2020	2019
	HK$'000	*HK$'000*
Current tax expense	**13,982**	4,765
Under-provision in respect of prior years	**2,181**	581
	16,163	5,346
Deferred tax expense	**7,788**	–
Income tax expenses in the consolidated statement of profit or loss	**23,951**	5,346

(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 2020 and 2019.

(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 2020 and 2019, 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 2020 and 2019.

(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 2020 (2019: HK$Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2020 is based on the loss attributable to equity holders of the Company for the year of HK$2,019,264,000 (2019: HK$3,940,484,000) and the weighted average number of 1,822,756,000 (2019: 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 2020 and 2019 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 2020 and 2019.

11. TRADE AND OTHER RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**454,738**	413,605
Less: Expected credit losses	**(136,570)**	(30,202)
Trade receivables, net	**318,168**	383,403
Bills receivable	**3,089**	614
Value-added tax recoverable	**1,390,767**	1,163,589
Deposits and prepayments	**547,956**	234,273
Others	**164,634**	67,200
	2,424,614	1,849,079

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:

	2020	2019
	HK$'000	*HK$'000*
Within 30 days	**211,294**	233,846
31 days to 90 days	**78,481**	109,248
91 days to 180 days	**23,237**	38,715
Over 180 days	**5,156**	1,594
	318,168	383,403

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

	2020	2019
	HK$'000	*HK$'000*
Trade payables *(note (i))*	**593,303**	613,461
Deposits from customers	**96,256**	90,692
Contract liabilities *(note (ii))*	**376,123**	327,142
Salary and welfare payables	**137,970**	80,867
Value-added tax payable	**48,806**	3,313
Payables for acquisitions of property, plant and equipment	**614,195**	548,490
Provision for losses on litigations	**141,596**	132,954
Interest payables	**1,743,886**	1,265,499
Other payables and accruals	**1,539,793**	1,253,556
	5,291,928	4,315,974

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

	2020	2019
	HK$'000	*HK$'000*
Within 30 days	**415,821**	422,429
31 days to 90 days	**53,119**	150,790
91 days to 180 days	**82,067**	14,466
Over 180 days	**42,296**	25,776
	593,303	613,461

(ii) Contract liabilities:

	31 December 2020	31 December 2019
	HK$'000	*HK$'000*
Contract liabilities arising from:		
Sale of goods	**376,123**	327,142

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.

All the contract liabilities as at 31 December 2019 were recognised as revenue during the year ended 31 December 2020. The Group expects that the contract liabilities as at 31 December 2020 will be recognised as revenue within a year or less.

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 2020, the Group could not fulfil covenants imposed by banks on borrowings with aggregate amount of HK$5,972,672,000 (2019: HK$4,937,349,000). Included in these amount, borrowings of aggregate amounts of HK$78,303,000 (2019: HK$111,632,000) which were long-term borrowings and were re-classified as current liabilities in the consolidated statement of financial position as at 31 December 2020. 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 2020, 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$2,305,940,000 (2019: HK$2,120,682,000) or to secure the repayment with assets of equivalent amount immediately. Up to date of approval of these consolidated financial statements, the court in the PRC have ordered to freeze the restricted bank deposits of HK$13,316,000 (2019: HK$21,951,000) and certain property, plant and equipment with carrying amounts of HK$136,290,000 (2019: HK$348,384,000). 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$193,044,000 (2019: HK$328,458,000). 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$74,850,000 (2019: HK$196,551,000) ("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 2020. During the year ended 31 December 2020, 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$46,330,000 (2019: HK$92,698,000) and corresponding late penalties of approximately HK$2,000,000 (2019: HK$50,725,000). These amounts were included in the Provision Amount already and the settlement had 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$144,714,000 (2019: HK$185,034,000) are still in process, of which an aggregate amount of HK$26,520,000 (2019: HK$53,128,000) had been included in the Provision Amount as at 31 December 2020. In the opinion of the Directors, no further provision for litigation was required to be made for the year ended 31 December 2020.

(ii) During the year ended 31 December 2020, 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$4,159,000 (2019: HK$138,994,000). The Group recognised losses of approximately HK$4,159,000 (2019: HK$138,994,000) as "provision for losses on litigations in "other net income/(loss)" in the consolidated statement of profit or loss for the year ended 31 December 2020.

(iii) The Group received notices issued by Nanjing Intermediate People's Court of the PRC (the "Court") that two creditors of the subsidiaries applied to the Court for the restructuring of the subsidiaries to obtain repayment for debts of approximately HK$1,473,000 and the applications were accepted. For details, please refer to the announcements of the Company dated 30 October 2020 and 17 November 2020. The applications may cause the relevant subsidiaries' bank borrowings of HK$2,660,554,000 to contravene the bank covenants relating to bank borrowings. Up to date of approval of these consolidated financial statements, the Group has not received any notification from relevant bank creditors for immediate repayment due to such additional contravention of bank covenants relating to bank borrowings.

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 2020, 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 2020:

"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 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 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$2,011,706,000 for the year ended 31 December 2020 and as at 31 December 2020, the Group had net current liabilities of HK$8,945,133,000. Its current bank and other borrowings amounted to HK$6,997,149,000 as at 31 December 2020, while the Group maintained its cash and cash equivalents of HK$307,550,000 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 bank borrowings amounted to HK$5,972,672,000 as at 31 December 2020. Included in these bank borrowings were HK$2,305,940,000 of which the banks have commenced litigations against the Group to repay the outstanding balances. As at 31 December 2020 and up to date of approval of these consolidated financial statements, the courts in the People's Republic of China (the "PRC") have ordered to freeze the Group's bank deposits of HK$13,316,000 and certain property, plant and equipment with carrying amounts of HK$136,290,000. Details of these litigations are set out in note 27(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 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 2019 ("2019 consolidated financial statements") relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2019 would affect the balances of these financial statements items as at 1 January 2020 and the corresponding movements, if any, during the year ended 31 December 2020. The balances as at 31 December 2019 and the amounts for the year then ended are presented as corresponding figures in the consolidation financial statements for the year ended 31 December 2020. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2020 also for the possible effect of the disclaimer of audit opinion on 2019 consolidated financial statements on the comparability of 2020 figures and 2019 figures in these consolidated financial statements."

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Friday, 28 May 2021. 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 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, 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 Monday, 24 May 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the Review Year, the COVID-19 pandemic had huge impact on the global economy. China effectively responded to the hard hit by the pandemic, implemented a proactive fiscal policy and a prudent monetary policy, and maintained a steady recovery of the national economy. China became one of the few major economies with growth in 2020.

COVID-19 has presented tough challenge for the economic environment, with the catering industry bearing the brunt. Along with the steady resumption of work and production, various departments of the Chinese government successively launched numerous measures to promote consumption, and the catering industry demonstrated impressive resilience. In 2020, national revenue from catering sector was RMB3,952.7 billion, down 16.6% year on year, representing a narrowed decline.

The combined impact of African swine fever and COVID-19 affected hog supply. Local governments, however, actively implemented various policies and measures to ensure stable hog production and supply. Construction of newly-built and expanded hog farms were completed successively and operations commenced. Hog production capacity continued to recover. In 2020, the number of hogs slaughtered in China was 527.04 million, down 3.2% year on year. China's pork output was 41.13 million tons, down 3.3%, and its average pork price was up 49.7%.

China's strict control over African swine fever accelerated the industry's supply-demand balance in production capacity. Besides, due to the tightened environmental protection policies, consolidation of slaughtering industry was accelerated, facilitating leading slaughtering enterprises to enter into the development stage where both increase in quantity and profit can be realised. During the pandemic, people's consumption habits changed and this led to the substantial soar of online consumption. Meat products have drawn consumers attention and received vigorous demand. China Yurun Food Group Limited ("Yurun Food" or "the Company") and its subsidiaries (collectively referred to as "the Group") will continue to uphold its core competitiveness in resources, strategy and brand, seize opportunities amid challenges, and promote stable business development.

Despite all uncertainties during the Review Year, the Group adopted a more prudent strategy and followed its belief to provide consumers with high-quality meat products in the turbulent market environment.

BUSINESS REVIEW

In early 2020, pork price rose by more than 100% after increase for 19 consecutive months. In the fourth quarter, hog inventory and supply significantly improved, and pork price dropped apparently. Overall food price was under effective control, showing a downward trend. However, in December 2020, the pork price surged again. Although hog price was significantly higher than that of the same period last year, the increase narrowed by more than 20 percentage points.

From the demand perspective, the overall performance of the slaughtering industry was sluggish. In terms of the utilization rate of slaughtering enterprises, the overall hog industry demonstrated a declining utilization rate and had its record low in 2020. Against this backdrop, both sales volume and gross profit of the Group were inevitably affected.

Despite the impact of the macro-environment on the business, the Group did not stop its efforts to execute the brand new development strategy to "expand high temperature and low temperature meat products, establish its online presence, explore geographical footprint to create a brilliant future." Through series of activities, Yurun Food has displayed a brand new look and state of development. The Group is also looking ahead to the development trend of the global meat industry, seeking new cooperation, creating new opportunities, and injecting new vitality into the Group's development.

During the Review Year, Yurun Food focused on executing the reform and distribution landscape of new fresh food retail sales across the country. Nearly 100 "Yurun Selection Shops", "Yurun Premium Selection Shops" and "Yurun Wholesale and Retail Selection Centers", which combine online purchase elements, were established in the Yangtze River Delta in only two months and this demonstrated the outstanding achievements by the Group.

Product Quality and Research and Development

As one of the leaders in the sector, Yurun Food owns a wide range of products brands well received by the market. Apart from the three China well-known trademarks "Yurun," "Wangrun" and "HRL.", the Company also owns also owns one China time-honored brand, "Popular Meat Packing".

At the "2020 (28th) China Market Sales Statistical Results Press Conference" held in April 2020, Yurun Food ranked first again in terms of market sales of low temperature meat products ("LTMP") and chilled pork as a result of their excellent performance. LTMP of Yurun Food has ranked first for more than 20 consecutive years while chilled pork of Yurun Food has ranked first for consecutive years. These honors not only reflect the high quality and reliability of Yurun Food, but also prove the trust and recognition of Yurun brand by customers.

In 2020, the Group and Jiangnan University came together to carry out comprehensive strategic cooperation in the fields of plant-based sausage (artificial meat), snack food, fried food and low-temperature instant rice. Since 2019, Yurun Food has stepped up its efforts to develop new products with focus on LTMP, Chinese pot stewed products, high temperature meat products ("HTMP"), snacks and internet-famous food. Nearly 300 new products have been developed, and some popular products have made remarkable achievements in sales which impress the industry.

In March and September 2020, China Association for Quality granted ten honors in total to Jiangsu Yurun Meat Product Co., Ltd., a subsidiary of the Group, based on surveys conducted between 2017 and 2020. These recognitions included "National leading brand in the meat industry", "National Quality Inspected and Reputation Guaranteed Product", "National Excellent Quality and Credit Enterprise", "National Trustworthy Quality Product" as well as "National Benchmarking Enterprise with Integrity". Since its establishment, Yurun Food has been closely cooperating with the national and local quality supervision institutions at all levels to achieve high level of product safety and quality, and has always maintained the exceeding level in various quality inspections and tests to provide consumers with safe, guaranteed, healthy and delicious meat products.

Technological and product innovation have always been the core force to drive the transformation and upgrading of Yurun Food. While maintaining and ensuring high product quality, the Group will continue to eye on the R&D of new products preferred by the market, further enhance market competitiveness, and maintain its leading position in the industry.

Sales and Distribution

Chilled pork and LTMP, the Group's products with high added values, remained the key business drivers of the Group during the Review Year. In 2020, sales of chilled pork of the Group was HK$11.636 billion (2019: HK$11.400 billion), up 2.1% from last year, accounting for approximately 76% (2019: 74%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2019: 86%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.818 billion (2019: HK$1.825 billion), down 0.3% from last year, accounting for about 12% (2019: 12%) of the total revenue of the Group prior to inter-segment eliminations and approximately 76% (2019: 88%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

As at 31 December 2020, the annual production capacity of the Group's upstream slaughtering segment and downstream processed meat segment was approximately 52.65 million heads and 312,000 tons respectively, comparable to the production capacity as at 31 December 2019.

Financial Review and Key Performance Indicators

In 2020, the Group recorded revenue of HK$15.213 billion (2019: HK$15.225 billion), comparable to last year. During the Review Year, despite the provision of approximately HK$1.179 billion (2019: HK$3.155 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 48.8% from HK$3.940 billion last year to HK$2.019 billion. Basic and diluted loss per share was HK$1.108, representing a reduction of HK$1.054 in loss per share from HK$2.162 of the previous year.

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

Impairment losses on non-current assets

As at 31 December 2020, the Directors and the management evaluated the non-current assets of the Group in accordance with the requirements of International Accounting Standard 36 "Asset Impairment" (the "IAS 36"). Taking into account the continued decline in China and global economy since 2019 as well as the impact of African swine fever and COVID-19 on the overall industry, our business operation during the Review Year was behind expectation. Negative impact of these factors on the business of the Group is expected to remain in 2021. 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$1.179 billion (2019: HK$3.155 billion) during the Review Year. Although such amount is 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

During the Review Year, the average purchase price of hogs of the Group increased by approximately 70.1% compared with 2019. Affected by the COVID-19, certain production bases were required to suspend production in the first quarter. In addition, high pork prices hindered pork consumption, and decline in hog inventory made purchase of hogs difficult. As a result, the slaughtering volume decreased by approximately 53.9% to approximately 2.87 million heads compared with last year.

Since the significant increase in pork prices offset the impact of declined slaughtering volume, the overall sales revenue of the upstream prior to inter-segment eliminations decreased by 2.9% to HK$12.931 billion (2019: HK$13.323 billion). Specifically, the revenue from chilled pork was HK$11.636 billion (2019: HK$11.400 billion), representing an increase of 2.1% from last year, and accounted for approximately 76% (2019: 74%) of the Group's total revenue prior to inter-segment eliminations and approximately 90% (2019: 86%) of the upstream business total revenue. The sales of frozen pork amounted to HK$1.295 billion (2019: HK$1.923 billion), down 32.6% compared with 2019, and representing approximately 10% (2019: 14%) 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$2.394 billion (2019: HK$2.064 billion), representing an increase of 16.0% over last year.

Specifically, revenue of LTMP was HK$1.818 billion, representing a decrease of 0.3% from HK$1.825 billion of last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 76% (2019: 88%) of the total revenue of the processed meat segment. Revenue of HTMP was HK$576 million (2019: HK$239 million), accounting for approximately 24% (2019: 12%) of the total revenue of the processed meat segment. Revenue of HTMP increased significantly mainly due to the success of measures, such as launch of new products and expansion of sales channel, to increase the market shares.

Gross Profit and Gross Profit Margin

Affected by the African swine fever epidemic and COVID-19, coupled with the surge in pork price, profits from slaughtering were contracted due to decline in consumers' demand. The Group's gross profit decreased by 31.3% from HK$1.125 billion in 2019 to HK$773 million in the Review Year. The overall gross profit margin decreased by 2.3 percentage points to 5.1% from 7.4% of last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 1.9% and -6.8% respectively (2019: 4.8% and 1.2% respectively). The overall gross profit margin of the upstream segment was 1.0%, representing a decrease of 3.3 percentage points from 4.3% of last year.

In respect of the downstream business of processed meat products, its demands unexpectedly increased due to COVID-19, resulting in an increase in unit selling price and good performance in gross profit of this product segment. Gross profit margin of LTMP was 28.5%, representing an increase of 6.6 percentage points from 21.9% of last year. The gross profit margin of HTMP decreased by 1.0 percentage point to 29.8% from 30.8% of last year. The overall gross profit margin of the downstream business was 28.8%, up 5.9 percentage points from 22.9% of last year.

Other Net Income/(Loss)

During the Review Year, the Group recorded other net income of HK$137 million (2019: other net loss: HK$76.10 million). It was mainly attributable to non-recurring incomes, including government subsidies and gain on disposal of lease prepayments and property, plant and equipment. The position changed from other net loss of HK$76.10 million last year to other net income of HK$137 million was mainly due to the combined offset effect of substantial reduction in provision for losses on litigations, increase in gain on disposal of non-current assets and increase in loss on disposal of subsidiary during the Review Year.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$2.531 billion, representing a decrease of 42.8% from HK$4.429 billion of last year and including the provision of HK$1.179 billion (2019: HK$3.155 billion) on impairment losses of non-current assets. Operating expenses excluding impairment losses was HK$1.352 billion, representing an increase of 6.1% as compared to HK$1.274 billion of last year and accounting for 8.9% (2019: 8.4%) of the Group's revenue. The increase in operating expenses excluding impairment losses was mainly due to the increase in salary and wages for new employees but its impact was partially offset by the decrease in depreciation and decrease in transportation cost due to decline in sales volume.

Results of Operating Activities

During the Review Year, operating loss of the Group was HK$1.621 billion (2019: HK$3.380 billion), representing a significant reduction in loss of 52.0% from last year.

Finance Costs

During the Review Year, net finance costs of the Group were HK$367 million, a decrease of 33.4% from HK$551 million last year. The decrease in net finance costs was mainly attributable to a decrease in one-off provision of default interests for previous years made in 2019 due to a breach of certain bank borrowings covenants and exchange gains of the Group arising from the appreciation of RMB during the Review Year.

Income Tax

During the Review Year, the income tax expenses were approximately HK$24 million (2019: HK$5 million), representing an increase of approximately HK$19 million from last year.

Loss Attributable to the Equity Holders of the Company

Taking into account the above factors, loss attributable to the equity holders of the Company during the Review Year was HK$2.019 billion (2019: HK$3.940 billion), representing a reduction in loss of 48.8% from last year.

FINANCIAL RESOURCES

As at 31 December 2020, the sum of the Group's cash balance and restricted bank deposits was HK$321 million, representing an increase of approximately HK$64 million from HK$257 million as of 31 December 2019. Approximately 96% (31 December 2019: 96%) of the above mentioned financial resources was denominated in RMB, and approximately 3% (31 December 2019: 4%) was denominated in US Dollars, while the remaining was denominated in other currencies.

As at 31 December 2020, the Group had outstanding bank and other borrowings of HK$6.997 billion, representing an increase of 6.3% from HK$6.582 billion as at 31 December 2019, of which bank borrowings of HK$5.973 billion (31 December 2019: HK$4.937 billion) are repayable within one year. Please refer to paragraph headed "Breach of Loan Agreements" below for the details of breach of loan agreements of bank borrowings of the Group.

All borrowings were denominated in RMB, which were the same with the borrowings as at 31 December 2019. As at 31 December 2020, the Group's fixed-rate debt ratio was 80.2% (31 December 2019: 80.3%).

The net cash inflow of the Group during the Review Year was mainly net cash generated from operating activities.

During the Review Year, the capital expenditure was HK$263 million (31 December 2019: HK$131 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 2020, the Group could not fulfil the covenants in respect of bank borrowings with an aggregate amount of approximately HK$5.973 billion (31 December 2019: HK$4.937 billion), of which approximately HK$78 million (31 December 2019: HK$112 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 neither renewed nor repaid.

The Group has closely communicated 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 2020, the total assets of the Group were HK$9.156 billion (31 December 2019: HK$9.681 billion), representing a decrease of approximately HK$525 million as compared with that as at 31 December 2019. Its total liabilities were HK$12.401 billion, representing an increase of approximately HK$1.403 billion from HK$10.998 billion as at 31 December 2019.

As at 31 December 2020, the property, plant and equipment of the Group amounted to HK$3.788 billion (31 December 2019: HK$4.134 billion), representing a decrease of HK$346 million as compared with that as at 31 December 2019. The decrease was mainly due to the provision of approximately HK$806 million (2019: HK$2.726 billion) on the impairment losses of certain assets, deducted by the increase of approximately HK$527 million (2019: HK$267 million) in the carrying amount of property, plant and equipment as at 31 December 2020 resulting from foreign exchange arising from appreciation of RMB during the Review Year.

Lease prepayments as at 31 December 2020 amounted to HK$1.026 billion (31 December 2019: HK$1.353 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$328 million as compared with that of last year mainly due to the impairment losses of approximately HK$374 million (2019: HK$429 million) 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 2020, they amounted to HK$170 million (31 December 2019: HK$108 million) and HK$607 million (31 December 2019: HK$730 million) respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortize yet.

Despite the net liabilities position as at 31 December 2020, the Group had non-current assets of approximately HK$5.798 billion to support the daily production and operations of the Group. This net liabilities position has not materially impaired the Group's ability to continue its daily business operation. The Directors believe that by leveraging 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 be able to be back to net assets position.

During the Review Year, the Group recorded a net loss of HK$2.012 billion (2019: HK$3.936 billion). As at 31 December 2020, net current liabilities of the Group were HK$8.945 billion (31 December 2019: HK$7.078 billion). Its total bank and other borrowings amounted to HK$6.997 billion (31 December 2019: HK$6.582 billion) and is due within 12 months from the end of the Review Year. As mentioned above, although the Group failed to fulfil the contractual terms of 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 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 2020, 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 189.4% (31 December 2019: 126.3%). As at 31 December 2020, after excluding cash in bank and restricted bank deposits, the net debt/net gearing ratio was 180.7% (31 December 2019: 121.4%).

CHARGES ON ASSETS

As at 31 December 2020, certain properties, plant and equipment and construction in progress of the Group with a carrying amount of HK$792 million (31 December 2019: HK$1.568 billion), certain investment properties of the Group with a carrying amount of HK$208 million (31 December 2019: HK$202 million), certain lease prepayments of the Group with a carrying amount of approximately HK$491 million (31 December 2019: HK$685 million), and certain trade receivables of the Group with a carrying amount of approximately HK$5 million (31 December 2019: HK$6 million) were pledged against certain bank borrowings with a total amount of approximately HK$4.074 billion (31 December 2019: HK$3.862 billion).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES, AND FUTURE PLANS FOR MATERIAL INVESTMENT IN OR ACQUISITION OF CAPITAL ASSETS

Having considered the current operation and cash flow of the Group, the Board preliminary approved capital expenditure plan for 2021 which is expected to be approximately RMB200 million. The amount will be used mainly for the construction in progress already commenced, regular maintenance of factories, upgrades and technical transformation of equipment.

As at the date of this announcement, the Group has no plan to make any significant investment in or acquisition of capital assets. 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.

RESTRUCTURING

On 30 October 2020, the Company received the notices issued by Nanjing Intermediate People's Court of the People's Republic of China (the "PRC") (the "Court") that a creditor of Nanjing Yurun Food Co., Ltd. ("Nanjing Yurun"), a wholly-owned subsidiary of the Company, applied to the Court for the restructuring of Nanjing Yurun, and a creditor of Anhui Furun Meat Processing Co., Ltd. ("Anhui Furun"), a wholly-owned subsidiary of the Company, applied to the Court for the restructuring of Anhui Furun, respectively (the "Applications"). On 17 November 2020, the Company was informed that the Court had issued the Civil Ruling, which held that the Applications are accepted. On 23 February 2021, the Company was informed that the Court had issued notices, stating that due to the connected relationship between Nanjing Yurun, Anhui Furun and other 42 domestic subsidiaries (the "Companies"), the administrator of Nanjing Yurun had applied to the Court for the incorporation of the Companies into the restructuring case of Nanjing Yurun and Anhui Furun for a consolidated restructuring (the "Consolidated Restructuring Application"). The Companies are 42 wholly-owned subsidiaries of the Company.

For details, please refer to the announcements of the Company dated 30 October 2020, 17 November 2020 and 23 February 2021.

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.

CONTINGENT LIABILITIES

As at 31 December 2020, 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$2.306 billion (31 December 2019: HK$2.121 billion) or otherwise assets of equivalent amount. As at 31 December 2020, certain assets of the Group with a carrying amount of approximately HK$136 million (31 December 2019: HK$348 million) were frozen by the courts in the PRC, including the restricted bank deposits of approximately HK$13 million (31 December 2019: 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$193 million (31 December 2019: HK$328 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$75 million (31 December 2019: HK$197 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$46 million (31 December 2019: HK$93 million) and the corresponding late penalties of approximately HK$2 million (31 December 2019: HK$51 million) during the Review Year. As of the date of this announcement, litigations regarding the remaining claims of approximately HK$145 million (31 December 2019: HK$185 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$4 million (31 December 2019: HK$139 million). The Group has made full provisions for the aforesaid claims.

In October 2020, the Group received notices issued by the Court that two creditors of Nanjing Yurun and Anhui Furun respectively applied to the Court for the restructuring of Nanjing Yurun and Anhui Furun to obtain repayment for debts of approximately HK$1.473 million and the applications were accepted. For details, please refer to the announcements of the Company dated 30 October 2020 and 17 November 2020. The applications may cause the bank borrowings of HK$2.661 billion of Nanjing Yurun and Anhui Furun to contravene the bank covenants relating to bank borrowings. Up to date of approval of this announcement, the Group has not received any notification from relevant bank creditors for immediate repayment due to such additional contravention of bank covenants relating to bank borrowings.

In respect of the progress of the above, the Company will make further announcements in due course in accordance with the requirements of 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 2020, the Group had approximately 10,400 (31 December 2019: approximately 9,400) employees in the PRC and Hong Kong in total. During the Review Year, total staff cost was HK$722 million, accounting for 4.7% of the revenue of the Group (2019: HK$603 million, accounting for 4.0% of revenue).

The Group offers 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 offers performance linked bonus and share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocates 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 minimizing the impact of production and business activities on the environment. During the Review Year, the Group implemented measures to reduce waste generated during its production process. In the future, the Group aims at improving relevant measures to minimize waste generation and participating in environmental protection and sustainability plans, which are part of the Group's long-term environmental protection policy.

Responses from the Directors regarding the disclaimer of opinion set out in the Independent Auditor's Report for the year ended 31 December 2020

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") set out in the 2020 Annual Report that they 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 their possible cumulative effects on the consolidated financial statements. For details, please refer to the section "Extract of Independent Auditor's Report".

As disclosed in note 3(b) to the consolidated financial statements of the Group for 2020, 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 2020 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 evidences that the Auditor considers sufficient at this stage, in view of the differences in the weighting given to 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 bank borrowings, litigations and others, the Directors and the management have been actively tackling these problems. Such efforts include, without limitation:

- 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 funding: As disclosed in the published 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 sustain 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. During the Review Year, no new litigations were initiated by financial institutions against the Group for overdue borrowings. 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. The Directors and management also expect that progress with financial institutions can be made in 2021 on this issue through the restructuring on certain subsidiaries.

- Improving profitability, controlling costs and generating sufficient operating cash flow: The Directors and the management actively enhanced profitability and controlled costs in 2020 to reduce the burden on the Group, and such policies were effective during the year. In 2021, the Directors and the management will continue to execute the relevant policies, including but not limited to explore new sales channel, further develop e-commerce and restaurants channel, increase the production of high gross margin products such as high-end customized products. During the Review Year, the Group launched new packaging, new online promotion and slogans to attract young generation customer groups in order to increase market shares. On cost control, the Group started global procurement to enjoy the price advantages of imported products and ultimately to lower production costs and increase operating cash flows. It is expected that cashflow can return to healthy position in three to five years.

Taking into account 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 2020.

Views of the Audit Committee and the Directors

With respect to the consolidated financial statements of the Group for the year ended 31 December 2020, 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 the disagreement on the going concern basis with Auditor

As stated in note 3(b) to the consolidated financial statements and as disclosed above, the Directors and the management will continue to take all feasible measures in 2021, and make their best efforts to improve cash flows and keep improving the Group's business so as to resolve the disagreement with the Auditor as soon as possible. In view of the current economic environment of China and the impact of African swine fever and COVID-19, the Directors expect that there will be a delay on the effectiveness of the relevant measures. However, the Directors are confident that the Group is able to accelerate the execution of these relevant measures to resolve the disagreements with the Auditor once the economic environment and the epidemic have improved.

- Improvements in net loss

  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 borrowings, 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 in recent years. In 2020, net loss was only HK$$2.012 billion, representing a reduction of 48.9% from 2019.

- Net cash generated from operating activities

  The Group experienced a net cash outflows from operating activities during the years from 2015 to 2017 and has generated a net cash inflows from operating activities since the year 2018. During the Review Year, the net cash flows generated from operating activities increased significantly to approximately HK$189 million (2019: HK$82 million), reflecting the continual success of the measures taken by the management.

  Since the management's ability to improve the operation can be proved by the two aspects abovementioned, the Directors have confidence that the Group has the ability to continue as a going concern.

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 regarding securities transactions of the Directors. 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 2020 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 2020".

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 2020 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, 24 March 2021

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