# 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 2021

### 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 2021 (the "Review Year") together with the comparative figures of the corresponding period in 2020 as follows:

* *For identification purposes only*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

***For the year ended 31 December 2021***

| | Notes | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Revenue** | 4 | **8,440,202** | 15,213,237 |
| Cost of sales | | **(8,041,746)** | (14,440,180) |
| **Gross profit** | | **398,456** | 773,057 |
| Other net income | 5 | **22,640** | 137,262 |
| Distribution expenses | | **(366,246)** | (562,607) |
| Administrative and other operating expenses | | **(470,160)** | (1,968,629) |
| Gain on deconsolidation of subsidiaries | 14 | **3,491,306** | – |
| **Results from operating activities** | | **3,075,996** | (1,620,917) |
| Finance income | | **13,885** | 63,648 |
| Finance costs | | **(48,536)** | (430,486) |
| **Net finance costs** | | **(34,651)** | (366,838) |
| **Profit/(loss) before income tax** | 6 | **3,041,345** | (1,987,755) |
| Income tax expenses | 7 | **(10,838)** | (23,951) |
| **Profit/(loss) for the year** | | **3,030,507** | (2,011,706) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **3,060,499** | (2,019,264) |
| Non-controlling interests | | **(29,992)** | 7,558 |
| **Profit/(loss) for the year** | | **3,030,507** | (2,011,706) |
| **Earnings/(losses) per share** | | | |
| Basic and diluted | 9 | **HK$1.679** | HK$(1.108) |

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

***For the year ended 31 December 2021***

| | *Notes* | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|---|
| **Profit/(loss) for the year** | | **3,030,507** | (2,011,706) |
| **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 | | **50,653** | 105,824 |
| Foreign currency translation differences reclassified to profit or loss upon deconsolidation of subsidiaries | *14* | **(320,886)** | – |
| Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary | | **(19,534)** | (14,278) |
| | | **(289,767)** | 91,546 |
| **Total comprehensive income for the year** | | **2,740,740** | (1,920,160) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **2,770,620** | (1,931,498) |
| Non-controlling interests | | **(29,880)** | 11,338 |
| **Total comprehensive income for the year** | | **2,740,740** | (1,920,160) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

***At 31 December 2021***

| | Notes | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **519,916** | 3,788,273 |
| Investment properties | | **–** | 207,600 |
| Lease prepayments | | **101,851** | 1,025,661 |
| Intangible assets | | **1,740** | 59 |
| Non-current prepayments and other receivables | | **167,752** | 776,483 |
| | | **791,259** | 5,798,076 |
| **Current assets** | | | |
| Inventories | | **120,657** | 610,585 |
| Trade and other receivables | *11* | **314,116** | 2,424,614 |
| Income tax recoverable | | **719** | 2,341 |
| Restricted bank deposits | | **–** | 13,316 |
| Cash and cash equivalents | | **79,751** | 307,550 |
| | | **515,243** | 3,358,406 |
| **Current liabilities** | | | |
| Bank and other borrowings | *13* | **544,288** | 6,997,149 |
| Lease liabilities | | **1,873** | 2,059 |
| Trade and other payables | *12* | **1,159,321** | 5,291,928 |
| Income tax payable | | **2,552** | 12,403 |
| | | **1,708,034** | 12,303,539 |
| **Net current liabilities** | | **(1,192,791)** | (8,945,133) |
| **Total assets less current liabilities** | | **(401,532)** | (3,147,057) |

| | 2021 | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Non-current liability** | | |
| Lease liabilities | **68,087** | 97,500 |
| **NET LIABILITIES** | **(469,619)** | (3,244,557) |
| **EQUITY** | | |
| Share capital | **182,276** | 182,276 |
| Reserves | **(713,617)** | (3,484,237) |
| **Total equity attributable to equity holders of the Company** | **(531,341)** | (3,301,961) |
| **Non-controlling interests** | **61,722** | 57,404 |
| **TOTAL EQUITY** | **(469,619)** | (3,244,557) |

## 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 2021 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 19 to 20 of this announcement.

### 2. BASIS OF PREPARATION

**Going concern basis**

As at 31 December 2021, the Group had net current liabilities of HK$1,192,791,000 (2020: HK$8,945,133,000). At 31 December 2021, the Group's current bank and other borrowings amounted to HK$544,288,000 (2020: HK$6,997,149,000), while its cash and cash equivalents amounted to HK$79,751,000 (2020: HK$307,550,000) only.

As at 31 December 2021, the bank borrowings amounted to HK$544,288,000 (2020: HK$5,972,672,000) together with the accrued interests of HK$236,634,000 (2020: HK$1,743,886,000) were overdue. In addition, the Group could not fulfil certain bank covenants relating to the abovementioned banking borrowings of HK$544,288,000 (2020: HK$5,972,672,000) (note 13) and the banks have commenced litigations against the Group to settle the outstanding balances.

These events or conditions may cast significant doubt about the Group's ability to continue as a going concern and it may not have sufficient financial resources to finance the Group's operations and to meet its financial obligations as and when they fall due.

For the purpose of assessing going concern, the management have prepared a cash flow forecast covering a period of twelve 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 renewal of terms of the banking facilities, 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;

(iii) The potential outcome on conclusive settlement of the bank borrowings as part of the consolidated restructuring as disclosed in note 13; and

(iv) 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 notwithstanding that the above events or conditions indicate the existence of a material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern.

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 7, IFRS 9, IFRS 16 and IAS 39 | Interests Rate Benchmark Reform – Phase 2 |

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 Executive Officer, being the 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 2021 and 2020 is set out below:

| | **Chilled and frozen meat** | | **Processed meat products** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| External revenue | **6,710,449** | 12,827,575 | **1,729,753** | 2,385,662 | **8,440,202** | 15,213,237 |
| Inter-segment revenue | **99,410** | 103,220 | **30,268** | 8,403 | **129,678** | 111,623 |
| Reportable segment revenue | **6,809,859** | 12,930,795 | **1,760,021** | 2,394,065 | **8,569,880** | 15,324,860 |
| Depreciation and amortisation | **(91,250)** | (236,877) | **(41,385)** | (64,140) | **(132,635)** | (301,017) |
| Impairment losses on property, plant and equipment and lease prepayments | **–** | (1,110,059) | **–** | (69,213) | **–** | (1,179,272) |
| Gain/(loss) on disposal of property, plant and equipment and lease prepayments | **(49,498)** | 33,499 | **18,045** | 24,792 | **(31,453)** | 58,291 |
| Impairment losses on trade receivables, net | **(7,517)** | (22,403) | **(22,351)** | (82,328) | **(29,868)** | (104,731) |
| Government subsidies | **4,431** | 39,653 | **279** | 670 | **4,710** | 40,323 |
| Reportable segment (loss)/profit before income tax | **(258,788)** | (1,568,002) | **(178,633)** | 3,587 | **(437,421)** | (1,564,415) |
| Income tax expenses | **(897)** | (3,562) | **(9,941)** | (20,389) | **(10,838)** | (23,951) |

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

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Total revenue of reportable segments | **8,569,880** | 15,324,860 |
| Elimination of inter-segment revenue | **(129,678)** | (111,623) |
| Consolidated revenue | **8,440,202** | 15,213,237 |
| **Profit/(loss)** | | |
| Total reportable segment loss before income tax | **(437,421)** | (1,564,415) |
| Elimination of inter-segment loss | **382** | 1,358 |
| | **(437,039)** | (1,563,057) |
| Gain on deconcolidation of subsidiaries *(note 14)* | **3,491,306** | – |
| Gain/(loss) on disposal of a subsidiary | **43,867** | (37,772) |
| Net finance costs | **(34,651)** | (366,838) |
| Income tax expenses | **(10,838)** | (23,951) |
| Unallocated head office and corporate expenses | **(22,138)** | (20,088) |
| Consolidated profit/(loss) for the year | **3,030,507** | (2,011,706) |

**(c) Geographical information**

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

**(d) Information about major customers**

During the years ended 31 December 2021 and 2020, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

## 5. OTHER NET INCOME

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Government subsidies | **4,710** | 40,323 |
| Provision for losses on litigations *(note ii)* | **(45,266)** | (4,159) |
| Gain/(loss) on disposal of a subsidiary | **43,867** | (37,772) |
| (Loss)/gain on disposal of right-of-use assets *(note i)* | **(42,126)** | 30,796 |
| Gain on disposal of property, plant and equipment | **10,673** | 27,302 |
| Rental income | **29,651** | 68,259 |
| Sales of scrap | **2,912** | 1,534 |
| Sundry income | **18,219** | 10,979 |
| | **22,640** | 137,262 |

*Note:*

(i) (Loss)/gain on disposal of right-of-use assets represented the net of (i) loss on disposal of lease prepayments of HK$42,126,000 (2020: gain on disposal of HK$30,989,000) and (ii) loss on disposal of investment properties of HK$Nil (2020: HK$193,000).

(ii) During the year ended 31 December 2021, included in provision of losses on litigations were (i) litigations initiated by a municipal people's government in the PRC claiming against certain subsidiary of the Group in view of the suspension of the development in a relevant area, for immediate cash repayment of approximately HK$42,251,000 (2020: HK$4,159,000); and (ii) litigation initiated by a commercial competitor in the PRC claiming against a subsidiary of the Group in view of the economic losses due to trademark infringement of approximately HK$3,015,000 (2020: Nil).

## 6. PROFIT/(LOSS) BEFORE INCOME TAX

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

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories | **8,041,746** | 14,440,180 |
| Write-down of inventories | **1,906** | 4,529 |
| Impairment losses on trade receivables | **29,868** | 109,248 |
| Reversal of impairment losses on trade receivables | **–** | (4,517) |
| Impairment losses on property, plant and equipment | **–** | 805,609 |
| Impairment losses on lease prepayments | **–** | 373,663 |
| Depreciation | | |
| – Owned property, plant and equipment | **110,214** | 231,329 |
| – Right-of-use-assets included: | | |
| – Investment properties | **1,318** | 8,281 |
| – Properties | **4,421** | 3,942 |
| – Lease prepayments | **16,370** | 57,463 |
| Short term lease expenses | **–** | 349 |
| Interest on lease liabilities | **6,835** | 78 |
| Amortisation of intangible assets | **312** | 2 |
| Interest on bank and other borrowings | **41,268** | 429,732 |
| Interest income from bank deposits | **(1,005)** | (3,390) |

## 7. INCOME TAX EXPENSES

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

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax expense | **10,350** | 13,982 |
| Under-provision in respect of prior years | **488** | 2,181 |
| | **10,838** | 16,163 |
| Deferred tax expense | **–** | 7,788 |
| Income tax expenses in the consolidated statement of profit or loss | **10,838** | 23,951 |

(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 2021 and 2020.

(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 2021 and 2020, 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 2021 and 2020.

(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 2021 (2020: HK$Nil).

## 9. EARNINGS/(LOSSES) PER SHARE

### (a) Basic earnings/(losses) per share

The calculation of basic earnings/(losses) per share for the year ended 31 December 2021 is based on the profit attributable to equity holders of the Company for the year of HK$3,060,499,000 (2020: loss attributable to equity holders of the Company HK$2,019,264,000) and the weighted average number of 1,822,756,000 (2020: 1,822,756,000) shares in issue during the year.

(b) **Diluted earnings/(losses) per share**

Diluted earnings/(losses) per share equals to basic earnings/(losses) per share for the years ended 31 December 2021 and 2020 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 2021 and 2020.

## 11. TRADE AND OTHER RECEIVABLES

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **32,463** | 454,738 |
| Less: Expected credit losses | **(6,729)** | (136,570) |
| Trade receivables, net | **25,734** | 318,168 |
| Bills receivable | **202** | 3,089 |
| Value-added tax recoverable | **132,156** | 1,390,767 |
| Deposits and prepayments | **64,536** | 547,956 |
| Others | **91,488** | 164,634 |
| | **314,116** | 2,424,614 |

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:

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **19,118** | 211,294 |
| 31 days to 90 days | **5,344** | 78,481 |
| 91 days to 180 days | **1,189** | 23,237 |
| Over 180 days | **83** | 5,156 |
| | **25,734** | 318,168 |

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

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **117,991** | 593,303 |
| Deposits from customers | **9,681** | 96,256 |
| Contract liabilities | **31,223** | 376,123 |
| Salary and welfare payables | **13,648** | 137,970 |
| Value-added tax payable | **57,306** | 48,806 |
| Payables for acquisitions of property, plant and equipment | **24,076** | 614,195 |
| Provision for losses on litigations | **119,336** | 141,596 |
| Interest payables | **236,634** | 1,743,886 |
| Other payables and accruals | **549,426** | 1,539,793 |
| | **1,159,321** | 5,291,928 |

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

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **59,345** | 415,821 |
| 31 days to 90 days | **14,592** | 53,119 |
| 91 days to 180 days | **38,135** | 82,067 |
| Over 180 days | **5,919** | 42,296 |
| | **117,991** | 593,303 |

## 13. BANK AND OTHER BORROWINGS

As at 31 December 2021, the Group could not fulfil certain covenants imposed by the bank on the bank borrowings of HK$544,288,000 (2020: HK$5,972,672,000). All of these bank borrowings and the accrued interests of HK$236,634,000 (2020: HK$1,743,886,000) were overdue. As at 31 December 2021, certain bank borrowings were secured by trade receivables of HK$10,501,000 and guaranteed by certain companies within the Restructuring Companies. The bank borrowings with corporate guarantee provided by certain companies within the Restructuring Companies has been incorporated as part of the consolidated restructuring mentioned in note 14. Upon the banks realising their rights as creditors, such as converting the debts owed to equity interests in the new platform, a company incorporated in the PRC for the consolidated restructuring, within six months that the court in the PRC adjudicating the consolidated restructuring plan effective on 28 January 2022, the bank borrowings would be settled as part of the consolidated restructuring and the legal proceedings in relation to the bank borrowings would also be extinguished thereafter. If the banks do not realise their rights as creditors by converting the debts owed to equity interests in the new platform within the aforementioned time frame, the bank borrowings would not be automatically extinguished and the relevant legal proceedings would not be automatically discharged.

Up to the date of approval of these consolidated financial statements, the aforesaid bank borrowings were not yet renewed nor repaid.

At 31 December 2021, there were outstanding litigations commenced by the banks in the PRC against certain subsidiaries of the Group requesting such subsidiaries to settle the outstanding bank borrowings of HK$544,288,000 (2020: HK$2,305,940,000) or to secure the repayment with assets of equivalent amounts immediately. The Group is negotiating with the banks to settle these litigations.

At 31 December 2020, the court in the PRC have ordered to freeze the restricted bank deposits of HK$13,316,000 and certain property, plant and equipment with carrying amounts of HK$136,290,000.

## 14. GAIN ON DECONSOLIDATION OF SUBSIDIARIES

With effect from 30 April 2021, the consolidated restructuring of 44 direct or indirect owned subsidiaries (the "Relevant Subsidiaries") of the Group has been approved as a result of the civil ruling of the court in the PRC. Thereafter, the administrator appointed by the court (the "Administrator") commenced the taking over of the Relevant Subsidiaries, which entitled the Administrator to legal and actual control over the internal and external affairs of the Relevant Subsidiaries.

At 30 April 2021, the 44 Relevant Subsidiaries directly or indirectly, wholly or non-wholly owned another 68 companies. Notwithstanding that the Administrator did not directly take over the control of these 68 companies (the "Non-Taken-Over Subsidiaries"), the Directors of the Company consider that the Group has lost its control over the 44 Relevant Subsidiaries and the 68 Non-Taken-Over Subsidiaries (these 112 companies in total are collectively referred to as the "Restructuring Companies"), in view of the fact that the Non-Taken-Over Subsidiaries are considered as affairs of the Relevant Subsidiaries, the Group has lost its power over the Restructuring Companies as well as the exposure, or rights, to variable returns from involvement with the Restructuring Companies since the date of approval of the consolidated restructuring. Accordingly, the financial statements of the Restructuring Companies have ceased to be consolidated in the consolidated financial statements of the Company with effect from 30 April 2021. The consolidated restructuring plan was approved at the creditors' meeting on 28 January 2022 and was adjudicated effective by the court in the PRC on the same date.

The net liabilities deconsolidated were as follow:

| | **Nanjing Yurun Group** *(note i)* *HK$'000* | **Others** *(note ii)* *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| Property, plant and equipment | **2,893,644** | **400,779** | |
| Investment properties | **208,394** | **–** | |
| Lease prepayments | **811,034** | **58,403** | |
| Intangible assets | **60** | **–** | |
| Non-current prepayments and other receivables | **608,574** | **86,063** | |
| Inventories | **410,113** | **204,111** | |
| Trade and other receivables | **2,136,641** | **291,729** | |
| Income tax recoverable | **950** | **1,161** | |
| Cash and cash equivalents | **138,096** | **8,624** | |
| Bank and other borrowings | **(5,248,081)** | **(1,457,036)** | |
| Trade and other payables | **(4,856,188)** | **(1,076,773)** | |
| Income tax payable | **(5,230)** | **(886)** | |
| Lease liabilities | **–** | **(30,157)** | |
| Total net liabilities deconsolidated | **(2,901,993)** | **(1,513,982)** | **(4,415,975)** |
| Non-controlling interests disposed | | | **(60,410)** |
| Non-controlling interests arising from deconsolidation | | | **99,096** |
| Exchange reserve reclassified to profit or loss upon deconsolidation | | | **(320,886)** |
| Current accounts with deconsolidated subsidiaries | | | **1,206,869** |
| Gain on deconsolidation of subsidiaries | | | **(3,491,306)** |
| **Net cash outflow arising on deconsolidation of subsidiaries** | | | |
| Cash and cash equivalents deconsolidated of | | | **146,720** |

*Notes:*

(i) Nanjing Yurun Group represents 南京雨潤食品有限公司 (transliteral as Nanjing Yurun Food Co., Ltd.) and its subsidiaries.

(ii) Others represent the remaining Restructuring Companies other than those included in Nanjing Yurun Group.

## 15. CONTINGENT LIABILITIES

In addition to the litigations commenced by banks against certain subsidiaries of the Group as disclosed in note 13, as at 31 December 2020, there were outstanding litigations commenced by several constructors against certain Restructuring Companies of the Group claiming construction fees, together with the late penalties, totalling approximately HK$193,044,000. 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 ("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 and corresponding late penalties of approximately HK$2,000,000. These amounts were included in the Provision Amount already and the settlement had yet been made at 31 December 2020. The remaining litigation claims with an aggregate amount of approximately HK$144,714,000 were still in process, of which an aggregate amount of approximately HK$26,520,000 had been included in the Provision Amount as at 31 December 2020. In the opinion of the Directors, upon the deconsolidation of subsidiaries (note 14), no further provision for litigation was required to be made for the year ended 31 December 2021.

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 2021, 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 2021:

"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, as at 31 December 2021, the Group had net current liabilities of HK$1,192,791,000. At 31 December 2021, the Group's current bank and other borrowings amounted to HK$544,288,000, while its cash and cash equivalents amounted to HK$79,751,000 only.

As at 31 December 2021, the bank borrowings amounted to HK$544,288,000 together with the accrued interest of HK$236,634,000 were overdue. In addition, as disclosed in notes 3(b) and 27(iii) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to abovementioned bank borrowings of HK$544,288,000 and the banks have commenced litigations against the Group to settle the outstanding balances. Details of these litigations are set out in note 27(iii) to the consolidated financial statements. These events or conditions indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern and it may not have sufficient financial resources to finance the Group's operations and to meet its financial obligations as and when they fall due.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, which are set out in note 3(b) to the consolidated financial statements.

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 renewal of terms of the banking facilities, 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; (iii) the successful outcome on conclusive settlement of the bank borrowings as part of the consolidated restructuring as disclosed in note 27(i) to the consolidated financial statements; and (iv) 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 2020 ("2020 consolidated financial statements") relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2020 would affect the balances of these financial statements items as at 1 January 2021 and the corresponding movements, if any, during the year ended 31 December 2021. The balances as at 31 December 2020 and the amounts for the year then ended are presented as corresponding figures in the consolidation financial statements for the year ended 31 December 2021. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2021 also for the possible effect of the disclaimer of audit opinion on 2020 consolidated financial statements on the comparability of 2021 figures and 2020 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 Wednesday, 29 June 2022. 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 2021.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 24 June 2022 to Wednesday, 29 June 2022, 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 Thursday, 23 June 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Review

During the Review Year, the situation of COVID-19 prevention and control continued to improve, the world economy as a whole maintained the momentum of recovery, and China's economy also recovered steadily, production demand was gradually picking up, and economic development was moving forward steadily.

Hog breeding market has gradually stepped out of the impact of African Swine Fever. With the further effectiveness of various policies and measures to stabilize production and supply in the early stage, the production capacity of hogs in the newly added, renovated and expanded farms was released continuously, leading to a rapid recovery of hog production capacity. At the same time, driven by the high profit of hog breeding, there was a surplus of supply in the hog market. In 2021, the number of live hogs to be slaughtered in China was 671 million heads, a year-on-year increase of 27.4%.

In 2021, the slaughtering volume of large-scale designated slaughtering enterprises in the country was 265 million heads, a year-on-year increase of 62.9%, marking the highest slaughtering volume in the recent 5 years. The national pork output was approximately 53 million tons, up 28.8%. The average price of pork throughout the year fell by 30.3% year-on-year.

During the Review Year, although China Yurun Food Group Limited ("Yurun Food" or "the Company") and its subsidiaries (collectively referred to as "the Group") were facing various unsteady factors, the management adopted an active and prudent strategy and still adhered to its belief that it will provide consumers with high-quality meat products in the turbulent and complex market environment.

### Business Review

During the Review Year, the Group heavily involved in the Restructuring process. Upon the deconsolidation of Restructuring Companies, the remaining core business of the Group is the production of processed meats under the "Haroulian" ("HRL") brand series. Hadazhong, focused on the business of production of low temperature meat products ("LTMP"), has a long history of profound development and is one of the first batch of enterprises recognized as "China Time-honored Brands Enterprise (中華老字號企業)" by the Ministry of Commerce of the People's Republic of China (the "PRC"). It ranked among the "Top 50 Enterprises in Heilongjiang Province" and among the top 10 enterprises in the meat and food industry in Heilongjiang Province in 2006.

Hadazhong has also received numerous national honors and has been recognized as a national key leading enterprise in agricultural industrialization and a well-known trademark in China by the State Administration for Industry and Commerce. In addition, the red sausage production technique of Hadazhong has been recognized as Heilongjiang's Intangible Cultural Heritage and has been awarded the "Second Golden Award for Traditional Taste of Meat Products" by China Meat Association in 2015. Hadazhong offers comprehensive and diversified products, with more than ten different series of high quality LTMP and has received various international certifications.

**Consolidated Restructuring Case of 44 Relevant Subsidiaries**

References are made to (i) the announcements of the Company dated 17 November 2020, 23 February 2021, 30 April 2021, 25 May 2021, 27 May 2021, 27 August 2021, 4 January 2022 and 30 January 2022 in relation to the status of the Restructuring Case of 44 Companies (as defined in the announcements thereto); and (ii) the interim results announcement of the Company dated 31 August 2021 (the "Announcements"). Unless otherwise defined in this announcement, terms used in this announcement shall have the same meanings as those defined in the Announcements.

As noted in the Announcements, a substantial consolidated restructuring process (the "Restructuring Plan") was commenced against the 44 Relevant Subsidiaries since 30 April 2021, and the Administrator took over of the 44 Relevant Subsidiaries on 25 May 2021 and the accounts of the 44 Relevant Subsidiaries and the 68 Non-Taken-over Subsidiaries (together the "Restructuring Companies") have been deconsolidated from the Group's consolidated accounts since 30 April 2021 ("Deconsolidation").

**Deconsolidation of Restructuring Companies**

Due to the Deconsolidation, the assets and liabilities of the Restructuring Companies were excluded from the consolidated financial statements of the Group since 30 April 2021. These companies were companies with heavy liabilities, therefore resulting in recognition of approximately HK$3.491 billion gain on Deconsolidation during the Review Year, which is an one-off and non-cash item.

The consolidated statement of profit or loss of the Group comprises of the figures of the Company and all of the subsidiaries (including Restructuring Companies) for the four months ended 30 April 2021 and the figures of the Company and the remaining subsidiaries for May to December 2021 (the comparative figures are the amounts disclosed in the annual report for the twelve months ended 31 December 2020). For the consolidated statement of financial position as at 31 December 2021 (the comparative figures are the amounts disclosed in the 2020 annual report), it only comprises of the assets and liabilities for the Company and the remaining 37 subsidiaries. The profit and loss, assets and liabilities items have significant variances compared with last year were mainly due to the change in scope of consolidation. The comparability of the financial figures were also impacted.

**Summary of key components of the Restructuring Plan**

The Restructuring Plan has been adjudicated effective by the Nanjing Intermediate Court on 28 January 2022. The key impact of the Restructuring Plan on the Group are summarized below:

– the Company has ceased to (directly or indirectly) own any legal or actual equity interests in the 44 Restructuring Companies and the 44 Restructuring Companies have become the subsidiaries of the New Platform

– the Group has provided security in respect of indebtedness of the 44 Restructuring Companies in the amount of approximately Renminbi ("RMB") 936 million. Upon the relevant creditors of Restructuring Case of 44 Companies realizing their rights as creditors during the implementation of the Restructuring Plan, the Group will no longer be liable for such contingent liabilities

– the Group has indebtedness in the amount of approximately RMB618 million, which was guaranteed by certain members of the 44 Restructuring Companies and subject to legal proceedings made by the creditors thereof. Such indebtedness and the legal proceedings relating thereto will be extinguished upon the relevant creditors of the 44 Restructuring Companies realizing their rights during the implementation of the Restructuring Plan; otherwise, such portion of the indebtedness (and such related legal proceedings) would not be automatically extinguished

– the Group's receivables owing by certain members of the 44 Restructuring Companies and 78 China YH Restructuring Companies in the aggregate amount of approximately RMB1,251 million will be converted to not more than 0.72% of shareholding in the New Platform

– since the Restructuring Plan has taken effect, the Group has been focusing on the production of products under the "Haroulian" family of brands. The "Haroulian" family of trademarks, which are crucial to remaining core business of the Group, have been transferred to the Group at nil consideration pursuant to the Restructuring Plan

The Restructuring Plan was approved by voting at the Creditors' Meeting on 28 January 2022, it was also approved and adjudicated effective by the Nanjing Intermediate Court on the same day.

## Product Quality and Research & Development

Yurun Food has always attached great importance to product quality, and has adopted a strict internal quality control system in all processes from procurement, production, to sales and logistics. Yurun Food has established a corporate identity of food safety and high quality among consumers. Since its establishment, Yurun Food has been closely cooperating with the national and local quality supervision agencies at all levels for the sake of secure, reassuring, healthy and delicious meat foods.

Our "HRL" brand is a well-known trademark, and the Group also owns one China time-honored brand: "Popular Meat Packing". "HRL" is not only well known for its persistent quality, which is the only meat product enterprise in Heilongjiang Province that has passed ISO9001, ISO14001, ORSAS18001 and ISO22000 "Four in One" system certifications, but also successively won dozens of honors, including the National Quality Award of the PRC, the highest award of the first China Food Expo, and the traditional flavor award of meat quality evaluation by China Meat Association. At the 2021 China Meat Product Development Conference, "HRL" won the "Most Valuable Brand" award and the "Advanced Enterprise" award, fully proves the high recognition of the "HRL" brand by the market.

## 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 2021, sales of chilled pork of the Group was HK$6.107 billion (2020: HK$11.636 billion), decreased by 47.5% from last year, accounting for approximately 72% (2020: 76%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (2020: 90%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.307 billion (2020: HK$1.818 billion), decreased by 28.2% from last year, accounting for approximately 15% (2020: 12%) of the total revenue of the Group prior to inter-segment eliminations and approximately 74% (2020: 76%) of the total revenue of the downstream processed meat segment. The decrease in sales was mainly attributable to the change in scope of consolidation.

### Production Facilities and Production Capacity

As at 31 December 2021, the annual production capacity of the Group's upstream slaughtering segment and downstream processed meat segment was approximately 3.35 million heads and 56,000 tons respectively (31 December 2020: 52.65 million heads and 312,000 tons respectively). The decrease in capacity was attributable to the change in scope of consolidation.

### Financial Review and Key Performance Indicators

The profit and loss, assets and liabilities items have significant variances compared with last year were mainly due to the change in scope of consolidation. The comparability of the financial figures were also impacted.

In 2021, the Group recorded revenue of HK$8.440 billion (2020: HK$15.213 billion), decreased by 44.5% from last year. The profit attributable to equity holders was HK$3.060 billion (2020: loss attributable to equity holders of HK$2.019 billion). Loss arising from principal business, being profit/(loss) attributable to the equity holders of the Company excluding the gain on Deconsolidation, government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for losses on litigations, was HK$416 million (2020: HK$957 million), representing a reduction in loss of approximately 56.6% from same period last year. Basic and diluted earnings per share was HK$1.679 (2020: losses of HK$1.108).

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

### REVENUE

### Chilled and Frozen Pork

During the Review Year, the average purchase price of hogs of the Group decreased by approximately 25.7% compared with 2020. With the gradual weakening of the impact of the epidemic, the supply of hogs has gradually stabilized, and the continuous decline in hog prices has benefited upstream business. However, due to the change in the scope of consolidation, the slaughtering volume decreased by approximately 43.0% to approximately 1.64 million heads compared with last year.

Affected by the drop in pork prices and changes in the scope of consolidation, the overall sales revenue of the upstream prior to inter-segment eliminations decreased by 47.3% to HK$6.810 billion (2020: HK$12.931 billion). Specifically, the revenue from chilled pork was HK$6.107 billion (2020: HK$11.636 billion), representing a decrease of 47.5% from last year, and accounted for approximately 72% (2020: 76%) of the Group's total revenue prior to inter-segment eliminations and approximately 90% (2020: 90%) of the upstream business total revenue. The sales of frozen pork amounted to HK$703 million (2020: HK$1.295 billion), down 45.7% compared with 2020, and representing approximately 10% (2020: 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$1.760 billion (2020: HK$2.394 billion), representing a decrease of 26.5% over last year.

Specifically, revenue of LTMP was HK$1.307 billion, representing a decrease of 28.2% from HK$1.818 billion of last year. LTMP remained the key revenue driver of the processed meat business, accounting for approximately 74% (2020: 76%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$453 million (2020: HK$576 million), accounting for approximately 26% (2020: 24%) of the total revenue of the processed meat segment.

**Gross Profit and Gross Profit Margin**

Pork prices have fallen sharply and the repeated outbreak of the COVID-19 had a certain impact on catering, consumer demand dropped, and market space has been compressed, resulting in shrinking of slaughter profits. The Group's gross profit decreased by 48.5% from HK$773 million in 2020 to HK$398 million in the Review Year. The overall gross profit margin decreased by 0.4 percentage point to 4.7% from 5.1% of last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 1.8% and -3.0% respectively (2020: 1.9% and -6.8% respectively). The overall gross profit margin of the upstream segment was 1.3%, representing an increase of 0.3 percentage point from 1.0% of last year.

In respect of the downstream business of processed meat products, gross profit margin of LTMP was 17.6%, representing a decrease of 10.9 percentage points from 28.5% of last year. The gross profit margin of HTMP decreased by 9.7 percentage points to 20.1% from 29.8% of last year. The overall gross profit margin of the downstream business was 18.3%, down 10.5 percentage points from 28.8% of last year.

**Other Net Income**

The Group recorded other net income of approximately HK$23 million (2020: HK$137 million). Other net income was mainly attributable to non-recurring incomes, including government subsidies and net gain/loss on disposal of a subsidiary, lease prepayments and property, plant and equipment and deducted the provision for losses on litigation. The decrease was mainly attributable to the reduction in gain on disposal of non-current assets and the increase of provision for losses on litigations 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$836 million, representing a decrease of 67.0% from HK$2.531 billion of last year and including the provision of HK$1.179 billion on impairment losses of non-current assets in 2020. Operating expenses excluding impairment losses decreased by 38.1% compared with last year, accounting for 9.9% (2020: 8.9%) of the Group's revenue. The decrease was mainly due to the change in scope of consolidation.

**Results of Operating Activities**

During the Review Year, operating profit of the Group was HK$3.076 billion (2020: loss of HK$1.621 billion).

**Finance Costs**

During the Review Year, net finance costs of the Group were approximately HK$35 million (2020: HK$367 million). The main reason for the significant decrease in net finance costs compared to last year was that the bank borrowings of companies that are subject to the consolidated restructuring ceased accruing interests according to relevant laws.

**Income Tax**

During the Review Year, the income tax expenses were approximately HK$11 million (2020: HK$24 million).

**Profit/(Loss) Attributable to the Equity Holders of the Company**

Taking into account the above factors, profit attributable to the equity holders of the Company during the Review Year was HK$3.060 billion (2020: loss attributable to the equity holders of HK$ 2.019 billion). Loss arising from principal business, being profit/(loss) attributable to the equity holders of the Company excluding one-off gain/loss such as the gain on Deconsolidation, government subsidies, gain/loss on disposal of non-current assets, net foreign exchange gain/loss, impairment losses and provision for losses on litigations, was HK$416 million (2020: HK$957 million), representing a reduction in loss of approximately 56.6% from last year.

## FINANCIAL RESOURCES

As at 31 December 2021, the sum of the Group's cash and cash equivalents was approximately HK$80 million (31 December 2020: HK$308 million). Approximately 86% (31 December 2020: 96%) of the above mentioned financial resources was denominated in RMB, and approximately 10% (31 December 2020: 3%) was denominated in US Dollars ("USD"), while the remaining was denominated in other currencies.

As at 31 December 2021, the Group had outstanding bank and other borrowings due within 1 year of HK$544 million (31 December 2020: HK$6.997 billion). 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 2020. As at 31 December 2021, the Group's fixed-rate debt ratio was 82.5% (31 December 2020: 80.2%).

The net cash outflow of the Group during the Review Year was mainly due to the change in scope of consolidation. During the Review Year, the capital expenditure was HK$148 million (2020: HK$263 million) for the payment of construction in progress of those projects that have already commenced.

## BREACH OF LOAN AGREEMENTS

At 31 December 2021, the Group could not fulfil certain covenants imposed by the bank on the bank borrowings of HK $544 million (2020: HK$5.973 billion). All of these bank borrowings and the accrued interests of HK$237 million (2020: HK$1.744 billion) were overdue. At 31 December 2021, certain bank borrowings were secured by trade receivables of HK$11 million and guaranteed by certain companies within the Restructuring Companies. The bank borrowings with corporate guarantee provided by certain companies within the Restructuring Companies has been incorporated as part of the consolidated restructuring. Upon the banks realising their rights as creditors, such as converting the debts owed to equity interests in the new platform, within six months from the date of approval of adjudicated effective by the court in the PRC on 28 January 2022. The bank borrowings would be settled as part of consolidated restructuring and the legal proceeding in relation to the bank borrowings would also be extinguished thereafter. If the banks do not realise their rights as creditors by converting the debts owed to equity interests in the new platform within the aforementioned time frame, the bank borrowings would not be automatically extinguished and the relevant legal proceedings would not be automatically discharged.

Up to the date of approval of these consolidated financial statements, the aforesaid bank borrowings were not yet 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. The Directors expect that the issue of overdue bank borrowings will be resolved after the completion of the consolidated restructuring.

**ASSETS AND LIABILITIES**

As at 31 December 2021, the total assets of the Group were HK$1.307 billion (31 December 2020: HK$9.156 billion). Its total liabilities as at 31 December 2021 were HK$1.776 billion (31 December 2020:HK$12.401 billion).

As at 31 December 2021, the property, plant and equipment of the Group amounted to HK$520 million (31 December 2020: HK$3.788 billion).

Lease prepayments as at 31 December 2021 amounted to HK$102 million (31 December 2020: HK$1.026 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.

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 2021, they amounted to HK$3 million (31 December 2020: HK$170 million) and HK$165 million (31 December 2020: HK$607 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 2021, the situation has improved significantly after the Deconsolidation as compared with 31 December 2020. The Group had non-current assets of approximately HK$791 million to support its daily production and operations. This net liabilities position has not materially impaired the Group's ability to continue its daily business operation. The Directors believe that upon the completion of the consolidated restructuring, the Group will actively improve its operating profit according to the new business plan. With the improvement of the economic environment, the Directors are confident that the Group will return from net liabilities to net assets position.

As at 31 December 2021, net current liabilities of the Group were HK$1.193 billion (31 December 2020: HK$8.945 billion). Its current total bank and other borrowings amounted to HK$544 million (31 December 2020: HK$6.997 billion), while the cash and cash equivalents amounted to approximately HK$80 million (2020: HK$308 million). As mentioned above, although the Group failed to fulfil certain 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 and to persuade the banks to realise their rights as creditors within the relevant time frame under the consolidated restructuring plan. We consider the negotiations have been relatively positive. 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 2021, 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 approximately 42 times (31 December 2020: 2 times). As at 31 December 2021, after excluding cash in bank and restricted bank deposits, the net debt/net gearing ratio was approximately 36 times (31 December 2020: 2 times).

## CHARGES ON ASSETS

As at 31 December 2021, certain trade receivables of the Group with a carrying amount of approximately HK$11 million (31 December 2020: HK$5 million) were pledged against certain bank borrowings with a total amount of approximately HK$47 million (31 December 2020: HK$46 million).

## 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 is more cautious on capital expenditure in 2022. It is currently expected that the preliminary approval of the plan to be approximately RMB 20 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 relevant budgets and plans have not yet been finalized, and the Group has not identified any specified goals or plans at this stage.

Save as mentioned in the section headed "Consolidated Restructuring Case of 44 Relevant Subsidiaries", the Group did not hold any other significant investment nor had 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 2021, there were outstanding litigations initiated by banks in the PRC against certain subsidiaries of the Group demanding them to repay the outstanding bank borrowings of approximately HK$544 million (31 December 2020: HK$2.306 billion). The Group is negotiating with the banks to resolve such litigations.

After the Deconsolidation and up to the date of this announcement, there were no other material contingent liabilities save for the above.

In respect of the progress of the above, 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 2021, the Group had approximately 1,500 (31 December 2020: approximately 10,400) employees in the PRC and Hong Kong in total. The decrease was due to Deconsolidation. During the Review Year, total staff cost was HK$416 million, accounting for 4.9% of the revenue of the Group (2020: HK$722 million, accounting for 4.7% 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 2021

### 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 2021 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 "Extract of Independent Auditor's Report".

As disclosed in note 3(b) to the consolidated financial statements of the Group for 2021, 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 2021 prepared by the management, and assuming the success of the measures to mitigate the liquidity pressure and to improve financial position, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors consider the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate. However, the Auditor 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 certain covenants of bank borrowings, litigations and others, the Directors and the management have been actively tackling these problems. Such efforts include, without limitation:

- During the Review Year, the Group actively involved in the Restructuring process. Due to the Deconsolidation, the assets and liabilities of the Restructuring Companies were excluded from the consolidated financial statements of the Group on 30 April 2021. These Restructuring Companies were companies with heavy liabilities.

- Actively negotiating with banks for the renewal of terms of the banking facilities, to waive the repayable on demand clause and breach of certain undertakings and requirements of restrictive covenants, and to persuade the banks to realise their rights as creditors within the relevant time frame under the consolidated restructuring plan 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.

- Improving profitability, controlling costs and generating sufficient operating cash flow: The Directors and the management actively enhanced profitability and controlled costs to reduce the burden on the Group, and such policies were effective during the year. In 2022, 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, in order to 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 2021.

**Views of the Audit Committee and the Directors**

With respect to the consolidated financial statements of the Group for the year ended 31 December 2021, 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 2022, 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 domestic economic environment and the epidemic have improved, and the Restructuring Plan is gradually implemented.

- ***Improvements in principal business***

  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 since 2015. In 2021, loss arising from principal business was only HK$416 million, representing a reduction of 56.6% compared to 2020.

Since the management's ability to improve the operation can be proved by the 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 C.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 2021 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 2021".

## 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 2021 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, 29 March 2022

*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.*