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 2022

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 2022 (the "Review Year") together with the comparative figures of the corresponding period in 2021 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	**2022** ***HK$'000***	2021 *HK$'000*
Revenue	*4*	**2,162,440**	8,440,202
Cost of sales		**(2,049,633)**	(8,041,746)
Gross profit		**112,807**	398,456
Other net income	*5*	**26,758**	22,640
Distribution expenses		**(48,036)**	(366,246)
Administrative and other operating expenses		**(73,107)**	(470,160)
Gain on deconsolidation of subsidiaries	*14*	**–**	3,491,306
Results from operating activities		**18,422**	3,075,996
Finance income		**803**	13,885
Finance costs		**(38,504)**	(48,536)
Net finance costs		**(37,701)**	(34,651)
(Loss)/profit before income tax	*6*	**(19,279)**	3,041,345
Income tax expenses	*7*	**(6,050)**	(10,838)
(Loss)/ profit for the year		**(25,329)**	3,030,507
Attributable to:			
Equity holders of the Company		**(15,037)**	3,060,499
Non-controlling interests		**(10,292)**	(29,992)
(Loss)/profit for the year		**(25,329)**	3,030,507
(Loss)/earnings per share			
Basic and diluted	*9*	**HK$(0.008)**	HK$1.679

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
(Loss)/profit for the year		**(25,329)**	3,030,507
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		**355**	50,653
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)
		355	(289,767)
Total comprehensive income for the year		**(24,974)**	2,740,740
Attributable to:			
Equity holders of the Company		**(12,010)**	2,770,620
Non-controlling interests		**(12,964)**	(29,880)
Total comprehensive income for the year		**(24,974)**	2,740,740

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	**2022** **HK$'000**	2021 HK$'000
Non-current assets			
Property, plant and equipment		**449,037**	519,916
Lease prepayments		**90,699**	101,851
Intangible assets		**659**	1,740
Non-current prepayments and other receivables		**95,343**	167,752
		635,738	791,259
Current assets			
Inventories		**117,265**	120,657
Trade and other receivables	*11*	**390,635**	314,116
Income tax recoverable		**67**	719
Cash and cash equivalents		**33,210**	79,751
		541,177	515,243
Current liabilities			
Bank borrowings	*13*	**453,396**	544,288
Lease liabilities		**693**	1,873
Trade and other payables	*12*	**1,122,566**	1,159,321
Income tax payable		**2,134**	2,552
		1,578,789	1,708,034
Net current liabilities		**(1,037,612)**	(1,192,791)
Total assets less current liabilities		**(401,874)**	(401,532)

	Note	2022 HK$'000	2021 HK$'000
Non-current liabilities			
Bank borrowings	*13*	**30,498**	–
Lease liabilities		**62,221**	68,087
		92,719	68,087
NET LIABILITIES		**(494,593)**	(469,619)
EQUITY			
Share capital		**182,276**	182,276
Reserves		**(725,627)**	(713,617)
Total equity attributable to equity holders of the Company		**(543,351)**	(531,341)
Non-controlling interests		**48,758**	61,722
TOTAL EQUITY		**(494,593)**	(469,619)

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 2022 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

The Group incurred a net loss of HK$25,329,000 for the year ended 31 December 2022 and as at 31 December 2022, the Group had net current liabilities of HK$1,037,612,000. At 31 December 2022, the Group's current and non-current bank borrowings amounted to HK$453,396,000 and HK$30,498,000 respectively, while its cash and cash equivalents amounted to HK$33,210,000 only.

As at 31 December 2022, certain current bank borrowings amounted to HK$443,381,000 together with the accrued interest of HK$232,225,000 (included in trade and other payables (note 12)) were overdue. In addition, as disclosed in note 13, the Group could not fulfil certain bank covenants relating to the abovementioned current bank borrowings of HK$443,381,000 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, management have prepared a cash flow forecast covering a period of twelve months from the 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 enhance 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 IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IAS 16	Proceed before Intended Use
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to 2018-2020 cycle

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 other 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 2022 and 2021 is set out below:

	Chilled and frozen meat		**Processed meat products**		**Total**	
	2022	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**1,666,115**	6,710,449	**496,325**	1,729,753	**2,162,440**	8,440,202
Inter-segment revenue	**3,585**	99,410	**2**	30,268	**3,587**	129,678
Reportable segment revenue	**1,669,700**	6,809,859	**496,327**	1,760,021	**2,166,027**	8,569,880
Depreciation and amortisation	**(27,046)**	(91,250)	**(10,569)**	(41,385)	**(37,615)**	(132,635)
Gain/(loss) on disposal of property, plant and equipment and right-of-use assets	**(605)**	(49,498)	**2,351**	18,045	**1,746**	(31,453)
Impairment losses on trade receivables, net	**(523)**	(7,517)	**(4,440)**	(22,351)	**(4,963)**	(29,868)
Government subsidies	**2,478**	4,431	**148**	279	**2,626**	4,710
Reportable segment profit/(loss) before income tax	**(34,860)**	(258,788)	**65,639**	(178,633)	**30,779**	(437,421)
Income tax expenses	**–**	(897)	**(6,050)**	(9,941)	**(6,050)**	(10,838)

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

	2022	2021
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**2,166,027**	8,569,880
Elimination of inter-segment revenue	**(3,587)**	(129,678)
Consolidated revenue	**2,162,440**	8,440,202
(Loss)/profit		
Total reportable segment profit/(loss) before income tax	**30,779**	(437,421)
Elimination of inter-segment loss	**865**	382
	31,644	(437,039)
Gain on deconsolidation of subsidiaries *(note 14)*	**–**	3,491,306
Gain on disposal of a subsidiary	**–**	43,867
Net finance costs	**(37,701)**	(34,651)
Income tax expenses	**(6,050)**	(10,838)
Unallocated head office and corporate expenses	**(13,222)**	(22,138)
Consolidated (loss)/profit for the year	**(25,329)**	3,030,507

(c) Geographical information

The Group's revenue and (loss)/profit 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 2022 and 2021, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

5. OTHER NET INCOME

	2022	2021
	HK$'000	*HK$'000*
Government subsidies	**2,626**	4,710
Reversal of provisional/(provision for) losses on litigations *(note)*	**1,681**	(45,266)
Gain on disposal of a subsidiary	**–**	43,867
Loss on disposal of right-of-use assets	**–**	(42,126)
Gain on disposal of property, plant and equipment	**1,746**	10,673
Gain on extinguishment of debt *(note 13)*	**12,713**	–
Rental income	**126**	29,651
Sales of scrap	**441**	2,912
Sundry income	**7,425**	18,219
	26,758	22,640

Note: During the year ended 31 December 2021, included in provision for losses on litigations were (i) 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$42,251,000; 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.

6. (LOSS)/ PROFIT BEFORE INCOME TAX

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

	2022	2021
	HK$'000	*HK$'000*
Cost of inventories	**2,049,633**	8,041,746
Write-down of inventories	**1,815**	1,906
Impairment losses on trade receivables	**4,963**	29,868
Depreciation		
– Owned property, plant and equipment	**29,753**	110,214
– Right-of-use-assets including:		
– Investment properties	**–**	1,318
– Properties	**4,286**	4,421
– Lease prepayments	**2,609**	16,370
Amortisation of intangible assets	**967**	312
Interest on bank borrowings	**36,228**	41,268
Interest income from bank deposits	**(348)**	(1,005)

7. INCOME TAX EXPENSES

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

	2022	2021
	HK$'000	*HK$'000*
Current income tax expense	**5,316**	10,350
Under-provision in respect of prior years	**734**	488
Income tax expenses in the consolidated statement of profit or loss	**6,050**	10,838

(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 2022 and 2021.

(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 2022 and 2021, 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 2022 and 2021.

(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 2022 (2021: HK$Nil).

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the year ended 31 December 2022 is based on the loss attributable to equity holders of the Company for the year of HK$15,037,000 (2021: profit attributable to equity holders of the Company HK$3,060,499,000) and the weighted average number of 1,822,756,000 (2021: 1,822,756,000) shares in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share equals to basic (loss)/earnings per share for the years ended 31 December 2022 and 2021 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 2022 and 2021.

11. TRADE AND OTHER RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade receivables	**81,715**	32,463
Less: Expected credit losses	**(11,122)**	(6,729)
Trade receivables, net	**70,593**	25,734
Bills receivable	**–**	202
Value-added tax recoverable	**116,556**	132,156
Deposits and prepayments	**169,127**	64,536
Other receivables	**34,359**	91,488
	390,635	314,116

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:

	2022	2021
	HK$'000	*HK$'000*
Within 30 days	**64,178**	19,118
31 days to 90 days	**269**	5,344
91 days to 180 days	**6,139**	1,189
Over 180 days	**7**	83
	70,593	25,734

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

	2022	2021
	HK$'000	*HK$'000*
Trade payables	**191,633**	117,991
Deposits from customers	**5,458**	9,681
Contract liabilities	**24,583**	31,223
Salary and welfare payables	**13,433**	13,648
Value-added tax payable	**63,547**	57,306
Payables for acquisitions of property, plant and equipment	**35,221**	24,076
Provision for losses on litigations	**104,840**	119,336
Interest payables	**232,225**	236,634
Other payables and accruals	**451,626**	549,426
	1,122,566	1,159,321

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

	2022	2021
	HK$'000	*HK$'000*
Within 30 days	**107,805**	59,345
31 days to 90 days	**74,830**	14,592
91 days to 180 days	**1,509**	38,135
Over 180 days	**7,489**	5,919
	191,633	117,991

13. BANK BORROWINGS

As at 31 December 2022, the Group could not fulfil certain covenants imposed by the bank on certain bank borrowings of HK$443,381,000 (2021: HK$544,288,000). All of these bank borrowings and the accrued interest of HK$230,188,000 (2021: HK$236,634,000) were overdue.

The above bank borrowings were secured by corporate guarantees provided by certain Restructuring Companies. Such debts have been incorporated as part of the consolidated restructuring as mentioned in note 14. As disclosed in the Company's announcement dated 30 January 2022, the Restructuring Plan was approved and adjudicated effective by the Court in the PRC (the "Court") on 28 January 2022, together with the Court's ruling that the banks can realize their rights as creditors to convert the debts owed to them to equity interests in the new platform. If the rights have been confirmed by the Court, but the banks do not realize their rights as creditors to receive the debts repayments and/or to convert the debts owed to them to equity interests in the new platform pursuant to the Restructuring Plan, the Administrator shall deposit the debts repayments allocated to those creditors to the Administrator's bank account or its designated bank account, or shall hold such equity interests allocated to those creditors in the new platform on their behalf by a designated company. Within three years commencing from the date of completion of the Restructuring Plan, the creditors may still receive the debts repayments and/or the equity interests in the new platform allocated to them upon realizing their rights. If the creditors fail to realize their rights as creditors to receive the debts repayments and/or convert the debts owed to them to equity interests in the new platform within the prescribed time frame due to their own inaction, their rights under the Restructuring Plan are deemed to have been forgone. If the banks do not realize their rights as creditors by converting the debts owed to them to equity interests in the new platform, the bank borrowings would not be extinguished automatically and the relevant legal proceedings would not be discharged automatically. The banks may continue to seek recourse against the borrowers, i.e. members of the Group in accordance with the respective loan agreements.

At 31 December 2022, there were outstanding litigations commenced by the banks in the PRC against a subsidiary of the Group requesting such subsidiary to repay the outstanding bank borrowings of HK$443,381,000 (2021: HK$544,288,000) or to secure the repayment with assets of equivalent amounts immediately. The Group is negotiating with the banks to settle these litigations.

In December 2022, the Group has undergone a mediation with a bank for an agreed settlement plan on bank borrowing with original principal of HK$43,434,000 (2021: HK$47,456,000) and accrued interests of HK$19,347,000 (2021: HK$21,138,000). The agreed settlement plan contains modifications to the contractual terms of the bank borrowings which are considered substantial and result in the recognition of gain on extinguishment of debt of HK$12,713,000 during the year ended 31 December 2022.

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 was 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 considered 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 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 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 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

As at the end of the reporting period, expect for the litigations commenced by the banks against a subsidiary of the Group as disclosed in note 13, 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 2022, 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 2022:

"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 $25,329,000 for the year ended 31 December 2022 and as at 31 December 2022, the Group had net current liabilities of $1,037,612,000. At 31 December 2022, current and non-current bank borrowings amounted to $453,396,000 and $30,498,000 respectively, while its cash and cash equivalents amounted to $33,210,000 only.

As at 31 December 2022, certain bank borrowings amounted to $443,381,000 together with the accrued interest of $232,225,000 (included in trade and other payables (note 27)) were overdue. In addition, as disclosed in notes 3(b), 25(i) and 25(iii) to the consolidated financial statements, the Group could not fulfil certain bank covenants relating to the abovementioned current bank borrowings of $443,381,000 and the banks have commenced litigations against the Group to settle the outstanding balances.

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 measures 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 25(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 our opinion on the consolidated financial statements for the year ended 31 December 2021 ("2021 consolidated financial statements") relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2021 would affect the balances of these financial statements items as at 1 January 2022 and the corresponding movements, if any, during the year ended 31 December 2022. The balances as at 31 December 2021 and the amounts for the year then ended are presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2022. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2022 also for the possible effect of the disclaimer of audit opinion on 2021 consolidated financial statements on the comparability of 2022 figures and 2021 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 Monday, 19 June 2023. 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 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 June 2023 to Monday, 19 June 2023, 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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 13 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2022, China faced a complex and volatile domestic situation and the economy was hit by an unexpected shock. The Chinese government determined a new balance between epidemic prevention and control on one hand and economic and social development on the other hand, boosted market confidence, promoted the recovery of employment and domestic demand, and maintained stable prices. With the continuous implementation of optimized measures for epidemic prevention and control, and the gradual release of the effects of various policies to stabilize the economy, China's economic growth is expected to pick up steadily. According to the latest data released by the National Bureau of Statistics (the "NBS"), China's gross domestic product ("GDP") throughout the year of 2022 was Renminbi ("RMB") 121,020.7 billion, an increase of 3.0% over the previous year at constant prices. The consumer price index ("CPI") throughout the year of 2022 rose by 2.0% over the prior year. The restaurant market continues to be sluggish under the recurring epidemic. According to the latest data released by the NBS, the national catering revenue in 2022 was RMB4,394.1 billion, a year-on-year decrease of 6.3%.

In 2022, pork output increased significantly. According to the latest data released by the NBS, the number of live hogs slaughtered in China was 699 million heads, a year-on-year increase of 4.3%; the pork output was approximately 55.41 million tons, a year-on-year increase of 4.6%. The increase in the supply of live hogs, coupled with the fact that catering consumption has not fully recovered due to the COVID-19 pandemic, the average price of live hogs throughout the year fell by approximately 8% year-on-year.

As at 31 December 2022 ("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 uncertainties, the management adopted an active and prudent strategy and adhered to its belief in the complex and changing market environment, so as to provide consumers with high-quality meat products.

BUSINESS REVIEW

During the Review Year, a new round of epidemic prevention and control policies caused short-term suspension of work and production in the areas where some of the Group's production bases are located, which had an impact on our business to certain extent. With the continuous optimization of epidemic prevention and control measures and the introduction of new measures in the second half of the year, the Group resumed work and production in an orderly manner. Various businesses were carried out steadily, and the operation and production work gradually returned to normal. After the approval of the restructuring plan at the creditors' meeting on 28 January 2022 and the approval of the Nanjing Intermediate People's Court on the same day, the Group could be able to focus on the main business of the "Haroulian" ("HRL") series brands. Steady operation and improvement in operating performance have been shown.

Product Quality and Research & Development

Yurun Food always regards product quality as top priority. From the careful selection of raw materials to fully-qualified products, the Group has continuously enhanced the construction of the intelligent, high performance and high-quality system, established a strict system to manage the quality and industry-leading food safety and quality traceability system to meet customers' needs through technological innovation and provide healthy "green" food with a dedicated and professional attitude. By doing so, the Group has successfully established a good corporate image characterized by providing safe and high-quality food in the minds of consumers. Since its establishment, Yurun Food has been cooperating with national and local quality supervision agencies at all levels to do a good job in product safety and quality control. Looking forward, Yurun Food will actively implement its main responsibility for food safety in accordance with the latest "*Regulations on Supervision and Administration of Enterprises' Implementation of Main Responsibility for Food Safety*"（《企業落實食品安全主體責任監督管理規定》）promulgated in China, and improve its food safety management so that consumers can "enjoy a healthy life with safe food" (「品放心食品，享健康生活」).

Our "HRL" brand is a well-known trademark, and "Dazhong Roulian" is also a "China time-honored brand". "HRL" is not only well known for its persistent quality, which is a meat product enterprise that has passed ISO9001, ISO14001, ORSAS18001 and ISO22000 "Four in One" system certifications, but also successively won dozens of honors, including the National Quality Silver Award of the PRC, the gold award of the first China Food Expo, and the traditional flavor gold award of meat quality evaluation by the China Meat Association. It fully proves the high recognition of the "HRL" brand in the market.

During the Review Year, Harbin Dazhong Roulian Food Co., Ltd., a subsidiary of the Company, was awarded the "3.15 Integrity Enterprise in China" in the annual "National 3.15 Integrity Brand Survey". Going forward, while ensuring the high quality of products, the Group will continue to leverage its product and technological advantages, further enhance its market competitiveness, maintain its leading position in the industry and contribute positively to the transformation and upgrading of the food industry and consumption.

Deconsolidation of Restructuring Companies

Reference is made to the Company's annual report for the year ended 31 December 2021 ("Annual Report 2021"). Unless otherwise defined, the terms used in this section shall have the same meanings as those defined in the Annual Report 2021.

As disclosed in the Annual Report 2021, 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. No such gain was recognized during the Review Year.

The consolidated statement of profit or loss of the Group during the Review Year comprises of the figures of the Company and the remaining 37 subsidiaries after the restructuring. For the comparative figures of the Group, these comprise of the figures of the Company and all of the subsidiaries before the restructuring (including Restructuring Companies) for the four months ended 30 April 2021 and the figures of the Company and the remaining subsidiaries from May to December in 2021. The scope of consolidation of the consolidated statements of financial position as at 31 December 2022 and 31 December 2021 is the same.

Due to the change of the scope of consolidation, there had been variances in the profit and loss items for the Review Year compared with the same period last year, which may also have an impact on the comparability of the relevant financial figures.

Sales and Distribution

Chilled pork and low temperature meat products ("LTMP"), being the Group's products with high added values, remained to be the key business drivers of the Group during the Review Year. In 2022, sales of chilled pork of the Group was HK$1.468 billion (2021: HK$6.107 billion), accounting for approximately 68% (2021: 72%) of the total revenue of the Group prior to inter-segment eliminations and approximately 88% (2021: 90%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$285 million (2021: HK$1.307 billion), accounting for approximately 13% (2021: 15%) of the total revenue of the Group prior to inter-segment eliminations and approximately 57% (2021: 74%) of the total revenue of the downstream processed meat segment. The decrease in sales was mainly attributable to the change in the scope of consolidation and the drop in pork prices.

Production Facilities and Production Capacity

As at 31 December 2022, 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, which was in line with the annual production capacity at 31 December 2021.

FINANCIAL REVIEW AND KEY PERFORMANCE INDICATORS

In 2022, the Group recorded revenue of HK$2.162 billion (2021: HK$8.440 billion). In 2021, the Group recognized a gain on deconsolidation of subsidiaries of approximately HK$3.491 billion and no such one-off gain was recognized during the Review Year, and the loss attributable to equity holders during the Review Year was approximately HK$15 million (2021: profit attributable to equity holders of HK$3.060 billion). Loss arising from principal business, being loss attributable to the equity holders of the Company excluding government subsidies, gain/loss on disposal of non-current assets, gain on extinguishment of debt, net foreign exchange gain, and reversal/provision for losses on litigations, was approximately HK$34 million (2021: HK$416 million). Basic and diluted loss per share was HK$0.008 (2021: basic and diluted earnings of HK$1.679).

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 30.4% compared with 2021. Moreover, due to the change in the scope of consolidation, the slaughtering volume decreased to approximately 620,000 heads compared with last year (2021: 1.64 million heads).

Affected by the drop in pork prices and change in the scope of consolidation, the overall sales revenue of the upstream prior to inter-segment eliminations decreased to HK$1.670 billion (2021: HK$6.810 billion). Specifically, the revenue from chilled pork was HK$1.468 billion (2021: HK$6.107 billion), and accounted for approximately 68% (2021: 72%) of the Group's total revenue prior to inter-segment eliminations and approximately 88% (2021: 90%) of the upstream business total revenue. Frozen pork accounted for approximately 12% (2021: 10%) of the total revenue of the upstream business, with sales of HK$202 million (2021: HK$703 million).

Processed Meat Products

During the Review Year, sales of processed meat products of the Group prior to inter-segment eliminations decreased to HK$496 million (2021: HK$1.760 billion) due to change in the scope of consolidation.

Specifically, revenue of LTMP was HK$285 million (2021: HK$1.307 billion), and LTMP remained to be the key revenue driver of the processed meat business, accounting for approximately 57% (2021: 74%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$211 million (2021: HK$453 million), accounting for approximately 10% (2021: 5%) of the total revenue of the Group and approximately 43% (2021: 26%) of the total revenue of the processed meat segment, respectively.

Gross Profit and Gross Profit Margin

Due to change in the scope of consolidation, the Group's gross profit decreased from HK$398 million in 2021 to HK$113 million in the Review Year. However, as the Group focused on the development of the "HRL" brand series products with a higher gross profit margin after the restructuring, the overall gross profit margin increased by 0.5 percentage point to 5.2% from 4.7% of last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 1.6% and -0.6% respectively (2021: 1.8% and -3.0% respectively). The overall gross profit margin of the upstream segment was 1.3% (2021: 1.3%), which was the same as last year.

In respect of the downstream business of processed meat products, gross profit margin of LTMP was 18.0%, representing an increase of 0.4 percentage point from 17.6% of last year. The gross profit margin of HTMP decreased by 1.3 percentage points to 18.8% from 20.1% of last year. Due to the adjustment of product structure and the decrease in the purchase price of raw materials, the overall gross profit margin of the downstream business was 18.4%, up 0.1 percentage point from 18.3% of last year.

Other Net Income

During the Review Year, the Group recorded other net income of approximately HK$27 million (2021: HK$23 million).

During the Review Year, the Group reached a settlement agreement with a bank in respect of an overdue borrowing. A material modification of all or part of the terms of an existing financial liability shall be treated as extinguishment of the original financial liability and recognition of the new financial liability in accordance with IFRS 9, resulting in a difference of approximately HK$13 million between the carrying amount of the original financial liability and the new financial liability, which is recognized as a gain during the Review Year.

Other net income was mainly attributable to government subsidies, reversal of provision for losses on litigation and gain on disposal of property, plant and equipment.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$121 million (2021: HK$836 million), accounting for 5.6% (2021: 9.9%) of the Group's revenue. The decrease was mainly due to the change in scope of consolidation and the gradual success of cost control measures.

Results of Operating Activities

During the Review Year, operating profit of the Group was approximately HK$18 million (2021: HK$3.076 billion). The decrease was mainly due to the Group recognized a gain on deconsolidation of subsidiaries of approximately HK$3.491 billion in 2021, and there was no such one-off gain during the Review Year.

Net Finance Costs

During the Review Year, net finance costs of the Group were approximately HK$38 million, compared with HK$35 million in the last year. The main reason for the slight increase in net finance costs compared to last year was mainly due to the offsetting effects of decrease in net foreign exchange gains and decrease in interest on bank borrowings.

Income Tax

During the Review Year, the income tax expenses were approximately HK$6 million (2021: HK$11 million).

(Loss)/Profit 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 approximately HK$15 million (2021: profit attributable to the equity holders of HK$3.060 billion). During the Review Year, loss arising from principal business, being loss attributable to the equity holders of the Company excluding government subsidies, gain/loss on disposal of non-current assets, gain on extinguishment of debt, net foreign exchange gain and reversal/provision for losses on litigations, was approximately HK$34 million (2021: HK$416 million). Reduction in loss is mainly due to the Restructuring Companies which recorded a significant losses were excluded from the consolidated financial statements of the Group since 30 April 2021 and the gradual success of operation improvement measures.

FINANCIAL RESOURCES

As at 31 December 2022, the sum of the Group's cash and cash equivalents was approximately HK$33 million, representing a decrease of HK$47 million from HK$80 million as at 31 December 2021. Approximately 79% (31 December 2021: 86%) of the above-mentioned financial resources was denominated in RMB, and approximately 15% (31 December 2021: 10%) was denominated in US Dollars ("USD"), while the remaining was denominated in other currencies.

As at 31 December 2022, the Group had outstanding bank borrowings of HK$484 million, representing a decrease of HK$60 million from HK$544 million as at 31 December 2021, of which HK$453 million of bank borrowings were due within one year. During the Review Year, the Group repaid bank borrowings of approximately HK$21 million, and reached a consensus with the bank on one of the bank borrowings, agreeing to repay the principal in five years, and exempt part of the payable accrued interest and penalty interest.

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 2021. As at 31 December 2022, the Group's fixed-rate debt ratio was 73.6% (31 December 2021: 82.5%).

The net cash outflow of the Group during the Review Year was mainly for operating activities and partial repayment of bank borrowings.

During the Review Year, the capital expenditure was approximately HK$5 million (2021: HK$148 million).

BREACH OF LOAN AGREEMENTS

As at 31 December 2022, the Group could not fulfil certain covenants imposed by the banks on certain bank borrowings of HK$443 million (31 December 2021: HK$544 million). All of these bank borrowings and the accrued interests of HK$230 million (31 December 2021: HK$237 million) were overdue.

The above bank borrowings were secured by corporate guarantees provided by certain Restructuring Companies. Such debts have been incorporated as part of the consolidated restructuring as mentioned in note 14 to the consolidated financial statements of this announcement. As disclosed in the Company's announcement dated 30 January 2022, the Restructuring Plan was approved and adjudicated effective by the Court in the PRC (the "Court") on 28 January 2022, together with the Court's ruling that the banks can realize their rights as creditors to convert the debts owed to them to equity interests in the new platform. If the rights have been confirmed by the Court, but the banks do not realize their rights as creditors to receive the debts repayments and/or to convert the debts owed to them to equity interests in the new platform pursuant to the Restructuring Plan, the Administrator shall deposit the debts repayments allocated to those creditors to the Administrator's bank account or its designated bank account, or shall hold such equity interests allocated to those creditors in the new platform on their behalf by a designated company. Within three years commencing from the date of completion of the Restructuring Plan, the creditors may still receive the debts repayments and/or the equity interests in the new platform allocated to them upon realizing their rights. If the creditors fail to realize their rights as creditors to receive the debts repayments and/or convert the debts owed to them to equity interests in the new platform within the prescribed time frame due to their own inaction, their rights under the Restructuring Plan are deemed to have been forgone. If the banks do not realize their rights as creditors by converting the debts owed to them to equity interests in the new platform, the bank borrowings would not be extinguished automatically and the relevant legal proceedings would not be discharged automatically. The banks may continue to seek recourse against the borrowers (being members of the Group) in accordance with the respective loan agreements.

Subsequent to 31 December 2022 and up to the date of this announcement, the aforesaid bank borrowings had not been renewed.

The Group has been closely communicated with the banks (which comprise of two state-owned and national commercial banks in China) regarding the above matters to extend, renew and/or amend the terms of the outstanding bank borrowings. During the course of communication, the Group was given to understand that the banks would not take any radical actions against the Group and all parties hoped that the Group can sustain normal operations. As such, the Board believes that the likelihood of immediate repayment demand is not high and the above matters do not have significant adverse impact on the operations of the Group.

ASSETS AND LIABILITIES

As at 31 December 2022, the total assets of the Group were HK$1.177 billion (31 December 2021: HK$1.307 billion), representing a decrease of HK$130 million as compared with 31 December 2021. Its total liabilities as at 31 December 2022 were HK$1.672 billion, representing a decrease of HK$105 million as compared to HK$1.776 billion as at 31 December 2021.

As at 31 December 2022, the property, plant and equipment of the Group amounted to HK$449 million (31 December 2021: HK$520 million), representing a decrease of HK$71 million as compared with 31 December 2021. The decrease was mainly attributable to depreciation and foreign exchange rate movements which reduced the book value of the property, plant and equipment by approximately HK$41 million as at 31 December 2022 due to depreciation of RMB during the Review Year.

Lease prepayments of the Group as at 31 December 2022 amounted to HK$91 million (31 December 2021: HK$102 million). This represented the purchase cost of land use rights of the Group which was amortized 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 2022, they amounted to approximately HK$2 million (31 December 2021: HK$3 million) and HK$93 million (31 December 2021: HK$165 million), respectively. Prepayments for acquisitions of land use rights and property, plant and equipment have not started to depreciate nor amortize.

Despite the net liabilities position as at 31 December 2022, the Group had non-current assets of approximately HK$636 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 leveraging the improvement of the economic environment and the management's proactive efforts to keep improving its operating profit and reducing borrowings pressures, we are confident that the Group will return from net liabilities to net assets position.

As at 31 December 2022, net current liabilities of the Group were HK$1.038 billion (31 December 2021: HK$1.193 billion). Its current bank borrowings amounted to HK$453 million (31 December 2021: HK$544 million), while the cash and cash equivalents amounted to approximately HK$33 million (2021: HK$80 million). As mentioned above, although the Group failed to fulfil certain contractual terms of certain bank borrowings and are facing certain 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 realize 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 enhance 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 the total equity attributable to equity holders of the Company was a deficiency of approximately HK$543 million, the calculation of gearing ratio as at 31 December 2022 was not applicable.

CHARGES ON ASSETS

As at 31 December 2022, certain trade receivables of the Group with a carrying amount of approximately HK$12 million (31 December 2021: HK$11 million) were pledged against a bank borrowing with a total amount of approximately HK$41 million (31 December 2021: HK$47 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 2023. It is currently expected that the preliminary approval of the plan to be approximately RMB15 million. The amount will be used mainly for the construction in progress already commenced, regular maintenance of factories, upgrading 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.

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 2022, there were outstanding litigations initiated by banks in the PRC against a subsidiary of the Group demanding them to repay the outstanding bank borrowings of approximately HK$443 million (31 December 2021: HK$544 million) immediately. The Group is negotiating with the banks to resolve such litigations. Save as disclosed above, the Group did not involve in any other material litigation or arbitration and did not have other material contingent liabilities.

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 2022, the Group had a total of approximately 1,400 (31 December 2021: approximately 1,500) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$106 million, accounting for 4.9% of the revenue of the Group (2021: HK$416 million, accounting for 4.9% of revenue).

The Group offers its employees competitive remuneration and other employee benefits, including contributions to retirement schemes as social security program. 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 consciously fulfil the social responsibility of environmental protection. During the Review Year, the Group insists on the priority of protection and green development, integrated management and systemic measures to reduce waste generated during its production process. In the future, the Group aims at improving relevant measures to minimize waste generation, actively respond to national policies, and cooperate with environmental protection departments at all levels. The Group will improve corporate environmental management in parallel with economic development, and strive to become an excellent enterprise with a win-win situation for both the economy and the environment.

RESPONSES FROM THE DIRECTORS REGARDING THE "DISCLAIMER OF OPINION" SET OUT IN THE INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 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 "Independent Auditor's Report".

As disclosed in note 3(b) to the consolidated financial statements of the Group for 2022, 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 2022 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 Group has been actively tackling the challenges from all aspects during the Review Year

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 during the Review Year include, without limitation:

- Whilst the Group was not involved in formulating the Restructuring Plan, the Group was actively involved in and had been focusing on the restructuring process during the Review Year given the implication of the Restructuring Plan to the Group, and actively cooperated with the follow-up work after the approval of the Restructuring Plan.

- During the Review Year, we successfully reached a consensus with one of the banks, agreeing to repay the principal of an overdue borrowing in five years, and exempt part of the payable accrued interest and penalty interest, which greatly reduced the pressure on the Group. In addition, we maintained regular communications with the other two banks regarding the remaining two outstanding bank borrowings. All parties hoped that the Group can sustain normal operations and the banks have also expressed that no radical actions will be taken against the Group. The Directors and the management believe that the likelihood of receiving demands from such banks for immediate repayment is not high. Therefore, the operation of the Group have not been significantly affected.

- The Directors and the management have been actively enhancing the profitability and controlling costs to reduce the burden on the Group, and such policies have achieved positive results during the Review Year. Such policies include but not limited to (i) improving and optimizing product quality; (ii) exploring new sales channel, further development of e-commerce and catering channel; (iii) strengthening the production of high gross margin products such as high-end customized products; (iv) increasing slaughtering volumes to reduce the unit fixed costs; and (v) optimizing the mix of raw materials to decrease the production costs.

Taking into account of the above situation, the Directors consider that the Group has sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2022.

Nonetheless, the "disclaimer of opinion" was not removed by the Auditor during the Review Year. This was due to concern of the outstanding bank borrowings has yet to be fully resolved despite progress has been shown. The main reason for this situation was due to the COVID-19 pandemic in China in 2022, especially in the second half of the year. The increase in the number of infected people in various places has caused a lot of communication work to lag behind. Despite such uncontrollable circumstances, the Group put in the utmost effort to reach an agreement with the bank on a bank borrowing, which is an encouraging result.

Views of the Audit Committee and the Directors

With respect to the consolidated financial statements of the Group for the year ended 31 December 2022, the Audit Committee of the Company strictly reviewed the relevant documents and discussed the disagreement between the Directors and the Auditor on the position and view on going concern basis at the meetings of the Audit Committee. The Audit Committee and the Directors share the same position and view on the going concern basis.

Major plans to resolve the disagreement on the going concern basis with Auditor and the removal of "disclaimer of opinion"

The major work plans of the Company include:

i. Settlement of overdue bank borrowings: The Group's current overdue but outstanding bank borrowings come from two state-owned and national commercial banks in the PRC. The Group has been communicating with the relevant banks requesting that the principal be repaid in installments and penalty interest and compound interest for the previous periods shall be reduced or exempted. The communication process generally requires a consensus to be reached with the branches of the relevant lending banks, and then reporting to the head office after obtaining approval at the relevant branch level. The branches can only execute the solution after the final approval by the head office. The communication schedule, approval process, and issues involved with each bank are different. The Group needs to communicate with each bank in accordance with its approval process.

    In the past, the Directors and the management have been negotiating with the banks on several occasions but the epidemic caused serious delay in the communication process. The Directors and the management will continue to fulfil their responsibilities as Directors and management in 2023, endeavoring to secure the most favorable solution for the Group.

    The Company will further disclose details of the settlement of overdue bank borrowings to the stakeholders of the Company as and when appropriate.

ii. By improving profitability, controlling costs, and generating sufficient operating cash flows: implement and strategize existing and new operation plans to enhance profitability and costs control and generate sufficient operating cash flows, including but not limited to (a) improving and optimizing product quality to drive sales volume recovery with brand advantages; (b) exploring new sales channel, further development of new retail systems such as e-commerce and catering channel; (c) in terms of distribution model, focusing on the development of local supermarket systems, and conducting strategic cooperation through regional partners/franchisees to rapidly expand the national market; (d) increasing the production of high gross margin products such as high-end customized products; (e) optimizing production equipment and innovation through technology to increase the production efficiency and reduce the production costs; (f) reducing the inventory level of auxiliary materials and packaging materials; and (g) taking advantage of the expected low price of live hogs in 2023, increasing the slaughtering volume, dilution of production costs and reducing production expenses, etc., so as to enhance operating cash flows.

    In order to improve the Group's financial performance, enhance profitability, control costs and improve cash flow, the Group has taken a series of measures since last year. After the implementation and execution of the relevant measures, although the Group's business was still affected by the African Swine Fever and the COVID-19 pandemic in 2022, resulting in a decline in consumer demand, the loss was reducing which proved the effectiveness of the measures. Due to the impact of the COVID-19 pandemic in the PRC, some of the Group's production bases have to suspend production due to the lockdown policies of the Chinese government in 2022. In addition, the Chinese government's increasingly stringent requirements on epidemic control in the second half of 2022 have affected various production and business activities. Therefore, the management expects that the expected outcome of the above measures will be delayed by at least three to six months.

Removal of "Disclaimer of Opinion"

The Directors believe that when the above action plans can be implemented as expected, the Group will be able to turn loss into profit and comply with the revised terms or re-financing terms of the outstanding bank borrowings, and generate sufficient cash flows to gradually maintain a healthy and positive cash inflow to repay the bank borrowings to eliminate the uncertainty of the Auditor on the going concern of the Group. Subject to the success and favorable results of such action plans (as the outcome of resolving the overdue bank borrowings depends on the approval process and communication progress with respective banks) and subject to the conclusion of negotiations with the respective banks in 2023, the Directors expect that the "disclaimer of opinion" could be removed in the auditor's report on the financial statements for the year ending 31 December 2023.

Views of the Audit Committee and the Directors

The Directors and the Audit Committee have reviewed and provided their views on the proposed action plans, and are of the view that the above action plans, if implemented as intended, are sufficient for the Auditor's going concern of the Group to be eliminated and for the "disclaimer of opinion" to be removed.

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 2022 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 2022".

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 2022 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 2023

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.