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 2023

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 2023 (the "Review Year") together with the comparative figures of the corresponding period in 2022 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2023

	Notes	**2023** **HK$'000**	2022 *HK$'000*
Revenue	*4*	**1,410,943**	2,162,440
Cost of sales		**(1,297,953)**	(2,049,633)
Gross profit		**112,990**	112,807
Other net (losses)/income	*5*	**(105,354)**	26,758
Distribution expenses		**(45,038)**	(48,036)
Administrative and other operating expenses		**(132,184)**	(73,107)
Results from operating activities		**(169,586)**	18,422
Finance income		**97**	803
Finance costs		**(38,384)**	(38,504)
Net finance costs		**(38,287)**	(37,701)
Loss before income tax	*6*	**(207,873)**	(19,279)
Income tax credit/(expense)	*7*	**6,580**	(6,050)
Loss for the year		**(201,293)**	(25,329)
Attributable to:			
Equity holders of the Company		**(147,641)**	(15,037)
Non-controlling interests		**(53,652)**	(10,292)
Loss for the year		**(201,293)**	(25,329)
Loss per share			
Basic and diluted	*9*	**HK$(0.081)**	HK$(0.008)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2023

	Notes	**2023** *HK$'000*	2022 *HK$'000*
Loss for the year		**(201,293)**	(25,329)
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		**6,507**	355
Total comprehensive income for the year		**(194,786)**	(24,974)
Attributable to:			
Equity holders of the Company		**(151,618)**	(12,010)
Non-controlling interests		**(43,168)**	(12,964)
Total comprehensive income for the year		**(194,786)**	(24,974)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment		**326,449**	449,037
Lease prepayments		**45,618**	90,699
Intangible assets		**–**	659
Non-current prepayments and other receivables		**1,758**	95,343
		373,825	635,738
Current assets			
Inventories		**146,006**	117,265
Trade and other receivables	*11*	**452,756**	390,635
Income tax recoverable		**66**	67
Cash and cash equivalents		**39,298**	33,210
		638,126	541,177
Current liabilities			
Bank borrowings	*13*	**446,196**	453,396
Lease liabilities		**869**	693
Trade and other payables	*12*	**1,170,268**	1,122,566
Income tax payable		**34**	2,134
		1,617,367	1,578,789
Net current liabilities		**(979,241)**	(1,037,612)
Total assets less current liabilities		**(605,416)**	(401,874)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	**2023** **HK$'000**	2022 *HK$'000*
Non-current liabilities			
Bank borrowings	*13*	**22,029**	30,498
Lease liabilities		**61,934**	62,221
		83,963	92,719
NET LIABILITIES		**(689,379)**	(494,593)
EQUITY			
Share capital		**182,276**	182,276
Reserves		**(877,245)**	(725,627)
Total equity attributable to equity holders of the Company		**(694,969)**	(543,351)
Non-controlling interests		**5,590**	48,758
TOTAL EQUITY		**(689,379)**	(494,593)

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 and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2023 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 16 to 17 of this announcement.

2. BASIS OF PREPARATION

Going concern basis

The Group incurred a net loss of HK$201,293,000 for the year ended 31 December 2023 and as at 31 December 2023, the Group had net current liabilities of HK$979,241,000. At 31 December 2023, the Group's current and non-current bank borrowings amounted to HK$446,196,000 and HK$22,029,000 respectively, while its cash and cash equivalents amounted to HK$39,298,000 only.

As at 31 December 2023, certain current bank borrowings amounted to HK$437,069,000 together with the accrued interest of HK$263,326,000 (included in trade and other payables (note 12)) were overdue. In addition, as disclosed in note 13(i) and note 13(ii), the Group could not fulfil certain bank covenants relating to the abovementioned current bank borrowings of HK$437,069,000 and the banks have commenced litigations against the Group to settle the outstanding balances.

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

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

Based on the above, the Directors considered the Group would have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

However, the validity of the going concern assumption depends upon the successful outcome of the Group's plans and measures, 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 outcome on conclusive settlement of the bank borrowings as part of the consolidated restructuring as disclosed in note 13(i); and (iii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required. These indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern, and therefore that the Group may not be able to realise its assets and discharges its liabilities in the normal course of business.

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

In the current year, the Group has applied the following new and amendments to IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
IFRS 17	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules

Except as discussed below, none of the new or amended IFRS Accounting Standards have a material effect on the reported results or financial position of the Group for both current and prior reporting periods. The Group has not early applied any new or amended IFRS Accounting Standards that are not yet effective for the current accounting period.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

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 2023 and 2022 is set out below:

	Chilled and frozen meat		**Processed meat products**		**Total**	
	2023	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**966,400**	1,666,115	**444,543**	496,325	**1,410,943**	2,162,440
Inter-segment revenue	**13,845**	3,585	**–**	2	**13,845**	3,587
Reportable segment revenue	**980,245**	1,669,700	**444,543**	496,327	**1,424,788**	2,166,027
Depreciation and amortisation	**(22,825)**	(27,046)	**(11,210)**	(10,569)	**(34,035)**	(37,615)
Gain/(loss) on disposal of property, plant and equipment	**25,228**	(605)	**327**	2,351	**25,555**	1,746
Written-off of right-of-use assets	**(43,094)**	–	**–**	–	**(43,094)**	–
Written-off of value-added tax recoverable	**(99,107)**	–	**–**	–	**(99,107)**	–
Impairment losses on property, plant and equipment	**(56,495)**	–	**–**	–	**(56,495)**	–
Impairment losses on trade receivables, net	**(241)**	(523)	**(1,367)**	(4,440)	**(1,608)**	(4,963)
Government subsidies	**789**	2,478	**2,983**	148	**3,772**	2,626
Reportable segment (loss)/profit before income tax	**(225,344)**	(34,860)	**64,170**	65,639	**(161,174)**	30,779
Income tax credit/(expense)	**–**	–	**6,580**	(6,050)	**6,580**	(6,050)

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

	2023	2022
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**1,424,788**	2,166,027
Elimination of inter-segment revenue	**(13,845)**	(3,587)
Consolidated revenue	**1,410,943**	2,162,440
(Loss)/profit		
Total reportable segment (loss)/profit before income tax	**(161,174)**	30,779
Elimination of inter-segment loss	**4,732**	865
	(156,442)	31,644
Net finance costs	**(38,287)**	(37,701)
Income tax credit/(expense)	**6,580**	(6,050)
Unallocated head office and corporate expenses	**(13,144)**	(13,222)
Consolidated loss for the year	**(201,293)**	(25,329)

(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 2023 and 2022, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers.

5. OTHER NET (LOSSES)/INCOME

	2023	2022
	HK$'000	*HK$'000*
Government subsidies	**3,772**	2,626
Reversal of provisional losses on litigations	**–**	1,681
Written-off of value–added tax recoverable *(Note)*	**(99,107)**	–
Written-off of right-of-use assets	**(43,094)**	–
Gain on disposal of property, plant and equipment	**25,555**	1,746
Gain on extinguishment of debt *(note 13(iii))*	**–**	12,713
Rental income	**316**	126
Sales of scrap	**346**	441
Sundry income	**6,858**	7,425
	(105,354)	26,758

Note: The written-off of value–added tax recoverable was mainly derived from certain subsidiaries which have suspended or terminated their operations and the management of the Company expects these production bases may not be able to operate in certain period of time in future. These non-operating subsidiaries are entitled to the value-added tax recoverable but the utilisation of such value-added tax recoverable is remote.

6. LOSS BEFORE INCOME TAX

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

	2023	2022
	HK$'000	*HK$'000*
Cost of inventories	**1,297,953**	2,049,633
(Reversal of write-down)/write-down of inventories	**(1,350)**	1,815
Impairment losses on trade receivables	**1,608**	4,963
Impairment losses on property, plant and equipment	**56,495**	–
Depreciation		
– Owned property, plant and equipment	**26,967**	29,753
– Right-of-use-assets including:		
– Properties	**5,241**	4,286
– Lease prepayments	**1,210**	2,609
Amortisation of intangible assets	**617**	967
Interest on bank borrowings	**35,918**	36,228
Interest income from bank deposits	**(97)**	(348)

7. INCOME TAX (CREDIT)/EXPENSE

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

	2023	2022
	HK$'000	*HK$'000*
Current income tax expense	**46**	5,316
(Over)/under-provision in respect of prior years	**(6,626)**	734
Income tax (credit)/expense in the consolidated statement of profit or loss and other comprehensive income	**(6,580)**	6,050

(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 2023 and 2022.

(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 2023 and 2022, 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 2023 and 2022.

(d) Under the PRC tax law, dividends received by foreign investors from their investment in foreign-invested enterprises in respect of their 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 2023 (2022: HK$Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2023 is based on the loss attributable to equity holders of the Company for the year of HK$147,641,000 (2022: HK$15,037,000) and the weighted average number of 1,822,756,000 (2022: 1,822,756,000) shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the years ended 31 December 2023 and 2022 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 2023 and 2022.

11. TRADE AND OTHER RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Trade receivables	**121,254**	81,715
Less: Expected credit losses	**(12,571)**	(11,122)
Trade receivables, net	**108,683**	70,593
Value-added tax recoverable	**100,282**	116,556
Deposits and prepayments	**180,922**	169,127
Other receivables	**62,869**	34,359
	452,756	390,635

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:

	2023	2022
	HK$'000	*HK$'000*
Within 30 days	**102,991**	64,178
31 days to 90 days	**26**	269
91 days to 180 days	**5,602**	6,139
Over 180 days	**64**	7
	108,683	70,593

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

	2023	2022
	HK$'000	*HK$'000*
Trade payables	**171,617**	191,633
Deposits from customers	**20,038**	5,458
Contract liabilities	**28,906**	24,583
Salary and welfare payables	**12,024**	13,433
Value-added tax payable	**66,331**	63,547
Payables for acquisitions of property, plant and equipment	**30,081**	35,221
Provision for losses on litigations	**64,682**	104,840
Interest payables	**263,326**	232,225
Other payables and accruals	**513,263**	451,626
	1,170,268	1,122,566

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

	2023	2022
	HK$'000	*HK$'000*
Within 30 days	**64,900**	107,805
31 days to 90 days	**57,651**	74,830
91 days to 180 days	**7,197**	1,509
Over 180 days	**41,869**	7,489
	171,617	191,633

13. BANK BORROWINGS

(i) As at 31 December 2023, the Group could not fulfil certain covenants imposed by the bank on certain bank borrowings of HK$437,069,000 (2022: HK$443,381,000). All of these bank borrowings and the accrued interest of HK$263,326,000 (2022: HK$232,225,000) were overdue.

The above bank borrowings were secured by corporate guarantees provided by certain restructuring companies and have been incorporated as part of the consolidated restructuring. 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 realise 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 realise 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 realising their rights. If the creditors fail to realise 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 realise 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 borrower, i.e. a subsidiary of the Group in accordance with the respective loan agreements.

(ii) At 31 December 2023, 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$437,069,000 (2022: HK$443,381,000) (as mentioned in note 13(i)) or to secure the repayment with assets of equivalent amounts immediately. Among these, the courts in the PRC handed down the judgements in related to certain outstanding bank borrowings of HK$327,697,000 during the year ended 31 December 2023 and up to date of approval of these consolidated financial statements. Pursuant to the judgements, the subsidiary shall repay the outstanding bank borrowings together with accrued interest of HK$506,208,000 in total. These bank borrowings were secured by corporate guarantees provided by certain restructuring companies and fall into the restructuring plan as mentioned above, the Group will continue to negotiate with the banks on these bank borrowings.

(iii) In December 2022, the Group had undergone a mediation with a bank for an agreed settlement plan on bank borrowing with principal of HK$43,434,000 and accrued interest of HK$19,347,000. The agreed settlement plan contains modifications to the contractual terms of the bank borrowings which are considered substantial and resulted in the recognition of gain on extinguishment of debt of HK$12,713,000 during the year ended 31 December 2022.

14. 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(ii), 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 2023, 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 2023:

"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 $201,293,000 for the year ended 31 December 2023 and as at 31 December 2023, the Group had net current liabilities of $979,241,000. At 31 December 2023, current and non-current bank borrowings amounted to $446,196,000 and $22,029,000 respectively, while its cash and cash equivalents amounted to $39,298,000 only.

As at 31 December 2023, certain bank borrowings amounted to $437,069,000 together with the accrued interest of $263,326,000 (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 $437,069,000 and the banks have commenced litigations against the Group to settle the outstanding balances.

The directors of the Company have been implementing 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 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 (iii) the successful negotiation with banks to obtain additional new financing and other source of funding as and when required. These indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern, and therefore that the Group may not be able to realise its assets and discharges its liabilities in the normal course of business.

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 2022 ("2022 consolidated financial statements") relating to the going concern basis of preparing the consolidated financial statements. Any adjustments to the balances as at 31 December 2022 would affect the balances of these financial statements items as at 1 January 2023 and the corresponding movements, if any, during the year ended 31 December 2023. The balances as at 31 December 2022 and the amounts for the year then ended are presented as corresponding figures in the consolidated financial statements for the year ended 31 December 2023. We disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2023 also for the possible effect of the disclaimer of audit opinion on 2022 consolidated financial statements on the comparability of 2023 figures and 2022 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 Tuesday, 18 June 2024. 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 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 13 June 2024 to Tuesday, 18 June 2024, 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 Wednesday, 12 June 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2023, China's economy began to recover. However, due to multiple domestic and international factors such as sluggish global economic growth and continuous adjustments in the real estate sector, the overall economy showed a weak recovery. The problems of insufficient demand and weak social expectations remained prominent. According to data released by the National Bureau of Statistics, China's gross domestics product (GDP) for 2023 is preliminary estimated to be about Renminbi ("RMB")126 trillion, with a year-on-year growth of 5.2% at constant prices. From the consumer perspective, after the release of pent-up demand at the beginning of the year, consumption tended to stabilise in mid-year. However, the overall societal purchasing power and willingness to purchase were insufficient, limiting consumption recovery. The consumer recovery in 2023 fell short of expectations, with the annual consumer price index (CPI) only increased by 0.2% from 2022.

In 2023, the hog production capacity remained stable. The total number of hogs slaughtered during the year was 727 million heads, a year-on-year increase of 3.8%; pork production was 57.94 million tons, a year-on-year increase of 4.6%. By the end of 2023, the stock of hogs was 434 million heads, a decrease of 4.1% from the end of the previous year. In the medium to long term, as pork is the main source of meat consumption for most residents in China, pork consumption is expected to increase steadily with the rise in residents' income. At the same time, upgrades in consumption will also lead to an increase in the demand of meat products. Coupled with the development of China's pork industry chain towards "centralised slaughtering, cold chain transportation and fresh on the market", slaughtering and meat processing enterprises with higher levels of standardisation and regulation will have greater development opportunities.

China Yurun Food Group Limited ("Yurun Food" or "the Company") and its subsidiaries (collectively referred to as "the Group") faced unfavorable conditions such as weak market recovery and lack of consumer confidence during the financial year ended 31 December 2023 (the "Review Year"). The Group fully leveraged its resources, strategies, and brand advantages, prudently adjusted its product structure, and promoted stable business development in a complex and ever-changing market environment.

BUSINESS REVIEW

In 2023, domestic hog prices remained low due to the increase in supply capacity and the weaker-than-expected recovery in consumption. According to the statistics published by the Ministry of Agricultural and Rural Affairs of the People's Republic of China, the national average price of hogs for the whole year of 2023 was RMB15.35/kg, a year-on-year decrease of 19.3%; while the national average retail price of pork was RMB25.74/kg, a year-on-year decrease of 16.3%. The average purchase price of hogs for the Group decreased by 14.5% compared to last year. Looking forward to 2024, supply pressure still exists and the speed of recovery in consumer demand is slow, which will continue to put pressure on hog prices. During the Review Year, the Group focused on developing the business of "Haroulian" ("HRL") series brand. Centered around the trends of diversification and quality, the Group has been enriching its product varieties and improving product quality continuously, comprehensively meeting consumers' demands for healthy and delicious products.

Product Quality and Research & Development

The Group is fully aware that product quality is the cornerstone of long-term development. The Group has therefore formulated a comprehensive internal quality control system covering the entire process of procurement, production, sales and logistics to ensure the quality and safety of its products. Through these standards and measures, the Group has established a good corporate image of food safety and quality products in the minds of consumers and gained a good market reputation.

In addition, the Group has always been committed to strengthening communication and cooperation with national and local quality supervision agencies at all levels. It actively cooperates with the relevant supervisory agencies on the requirements and guidance to ensure that the quality of its products complies with the national standards and regulations, so as to maintain a leading position in the industry. In the future, the Group will continue to invest in various quality inspection and testing fields to ensure that products comply with national regulatory requirements and provide consumers with safe, reliable, delicious and healthy meat products in the long run.

Sales and Distribution

During the Review Year, high value-added products such as chilled pork and low temperature meat products ("LTMP") played an important role in driving the overall business development of the Group. In 2023, sales of chilled pork of the Group were HK$835 million (2022: HK$1.468 billion), decreased by 43.1% from last year, accounting for approximately 59% (2022: 68%) of the total revenue of the Group before inter-segment eliminations and approximately 85% (2022: 88%) of the total revenue of the upstream slaughtering segment. Sales of LTMP were HK$271 million (2022: HK$285 million), decreased by 4.9% from last year, accounting for approximately 19% (2022: 13%) of the total revenue of the Group before inter-segment eliminations and approximately 61% (2022: 57%) of the total revenue of the downstream processed meat segment. The decrease in sales was mainly due to the slower-than-expected recovery in consumption and the decline in pork prices.

Product Quality and Research & Development

As at 31 December 2023, 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 as at 31 December 2022.

FINANCIAL REVIEW AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$1.411 billion for the year 2023 (2022: HK$2.162 billion). During the Review Year, the loss attributable to equity holders was approximately HK$148 million (2022: HK$15 million). Basic and diluted loss per share was HK$0.081 (2022: HK$0.008).

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 slaughtering volume experienced a decline of around 19.8% to approximately 0.5 million heads, as compared to last year. This decrease was primarily attributed to a sluggish sales market.

The average purchase price of hogs of the Group decreased by approximately 14.5% compared to 2022. Affected by the decline in pork prices, the overall sales revenue from the upstream business before inter-segment eliminations decreased by 41.3% to HK$980 million (2022: HK$1.670 billion) compared to last year. Among these, the revenue from chilled pork was HK$835 million (2022: HK$1.468 billion), and accounted for approximately 59% (2022: 68%) of the Group's total revenue before inter-segment eliminations and approximately 85% (2022: 88%) of the upstream business total revenue. The sales of frozen pork amounted to HK$145 million (2022: HK$202 million), representing approximately 15% (2022: 12%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products of the Group before inter-segment eliminations was HK$445 million (2022: HK$496 million).

Specifically, the revenue of LTMP was HK$271 million (2022: HK$285 million). LTMP continued to be the key revenue contributor of the processed meat business, accounting for approximately 61% (2022: 57%) of the total revenue of the processed meat segment. Revenue of high temperature meat products ("HTMP") was HK$174 million (2022: HK$211 million), accounting for approximately 12% (2022: 10%) of the Group's total revenue before inter-segment eliminations and approximately 39% (2022: 43%) of the total revenue of the processed meat segment, respectively.

Gross Profit and Gross Profit Margin

During the Review Year, the Group focused on the business of the HRL series brand which had higher gross profit margins, thus driving the increase in gross profit margin of LTMP. In addition, the increase in the proportion of LTMP in the Group's revenue before inter-segment eliminations, contributed to an overall gross profit margin increase by 2.8 percentage points from last year's 5.2% to 8.0%. The Group's gross profit was HK$113 million (2022: HK$113 million), same as last year.

In respect of the upstream business, gross profit margins of chilled pork and frozen pork were 2.0% and -3.5% respectively (2022: 1.6% and -0.6% respectively). The overall gross profit margin of the upstream segment was 1.2%, representing a slight decrease of 0.1 percentage point from 1.3% of last year.

In respect of the downstream business of processed meat products, the Group continuously optimised the products structure and focused on high-margin products. Combined with the decline in the prices of major raw materials, the gross profit margin of LTMP increased significantly by 11.4 percentage points from 18.0% of last year to 29.4%. The gross profit margin of HTMP slightly decreased by 0.9 percentage point to 17.9% from 18.8% of last year. The overall gross profit margin of the downstream business was 24.9%, an increase of 6.5 percentage points from 18.4% in last year.

Other Net (Losses)/Income

During the Review Year, the Group recorded other net losses of approximately HK$105 million (2022: other net income of HK$27 million). It was mainly attributable to the one-off written-off of value-added tax ("VAT") recoverable of approximately HK$99 million based on the latest review by the management that those production bases may not be able to operate in certain period of time in future and its VAT recoverable may not be utilised in a short period of time under current economic situation; and the net loss on disposal/written-off of non-current assets of approximately HK$18 million.

Impairment Losses on Non-Current Assets

As at 31 December 2023, the Board evaluated the non-current assets of the Group in accordance with the requirements of the "International Accounting Standard 36 – Impairment of Assets" (IAS 36). With reference to the valuation assessment results of the recoverable amount of property, plant and equipment of those non-operating production bases conducted by an independent professional valuer, impairment losses of approximately HK$56 million was recognised for the Review Year. The impairment losses of non-current assets are accounting losses and non-cash items which do not affect the cash flow of the Group's operating activities.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$177 million (2022: HK$121 million), accounting for 12.6% (2022: 5.6%) of the Group's revenue, which included impairment losses on non-current assets of approximately HK$56 million (2022: HK$Nil). Operating expenses after exclusion of impairment losses amounted to HK$121 million, similar to last year. It accounts for 8.6% of the Group's revenue (2022: 5.6%).

Results of Operating Activities

During the Review Year, the Group's operating loss was approximately HK$170 million (2022: profit of approximately HK$18 million).

Net Finance Costs

During the Review Year, the net finance costs of the Group were approximately HK$38 million (2022: HK$38 million).

Income Tax

During the Review Year, the income tax credit was approximately HK$7 million (2022: expense of HK$6 million).

Loss Attributable to the Equity Holders of the Company

Taking into account the above factors, loss attributable to the equity holders of the Company during the Review Year was approximately HK$148 million (2022: HK$15 million). During the Review Year, loss arising from principal business, being loss for the year excluding government subsidies, written-off of VAT recoverable, impairment losses, gain/loss on disposal of non-current assets, gain on extinguishment of debt, net foreign exchange gain/loss and reversal of provisional losses on litigations, was approximately HK$29 million (2022: HK$45 million). The main reason for the reduction in loss was the gradual effectiveness of measures to improve operations.

FINANCIAL RESOURCES

As at 31 December 2023, the Group's cash and cash equivalents was HK$39 million, representing an increase of HK$6 million as compared to HK$33 million as at 31 December 2022. Of this, approximately 94% (31 December 2022: 79%) was denominated in RMB, and approximately 2% (31 December 2022: 15%) was denominated in US Dollars ("USD"), with the remaining amount in other currencies.

As at 31 December 2023, the Group had outstanding bank borrowings of HK$468 million, representing a decrease of HK$16 million from HK$484 million as at 31 December 2022, of which HK$446 million of bank borrowings were due within one year. During the Review Year, the Group repaid bank borrowings of approximately HK$10 million. Please refer to the paragraph headed "Breach of Borrowings Agreements" below for the details regarding the Group's breach of loan agreements.

All borrowings were denominated in RMB, which was the same as the borrowings as of 31 December 2022. As at 31 December 2023, the Group's fixed-rate debt ratio was 75.0% (31 December 2022: 73.6%).

During the Review Year, the net cash inflow of the Group mainly consisted of a net amount of approximately HK$20 million from operating activities and net proceeds from disposal of non-current assets after deduction of repayment of bank borrowings and capital expenditure.

During the Review Year, the capital expenditure was approximately HK$14 million (2022: HK$5 million).

BREACH OF BORROWINGS AGREEMENTS

As at 31 December 2023, the Group could not fulfill certain covenants imposed by the bank on the bank borrowings of HK$437 million (31 December 2022: HK$443 million). All of these bank borrowings and the accrued interest of HK$263 million (31 December 2022: HK$232 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 the Company's 2021 and 2022 annual financial reports. 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 realise 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 realise 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 realising their rights. If the creditors fail to realise 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 realise 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 borrower (being a subsidiary of the Group) in accordance with the respective loan agreements

Subsequent to 31 December 2023 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 (including two state-owned and national commercial banks in China) regarding the above matters to extend, renew and/or amend the term 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 2023, the total assets of the Group were HK$1.012 billion (31 December 2022: HK$1.177 billion), a decrease of HK$165 million from 31 December 2022. The Group's total liabilities as at 31 December 2022 were HK$1.701 billion, an increase of HK$30 million from HK$1.672 billion as at 31 December 2022.

As at 31 December 2023, the property, plant, and equipment of the Group amounted to HK$326 million (31 December 2022: HK$449 million), a decrease of HK$123 million from 31 December 2022. The decrease was mainly due to the provision of impairment losses of HK$56 million made during the Review Year.

As at 31 December 2023, the lease prepayments of the Group amounted to HK$46 million (31 December 2022: HK$91 million). This represented the purchase cost of land use rights of the Group which was amortised on a straight-line basis over the respective period of the rights. The decrease was mainly due to the written-off of land use rights amounted to HK$43 million during the Review Year.

Non-current prepayments and other receivables of the Group mainly represented the prepayments for acquisitions of land use rights and property, plant and equipment, and the non-current portion of VAT recoverable. As at 31 December 2023, they amounted to approximately HK$2 million (31 December 2022: HK$2 million) and HK$40,000 (31 December 2022: HK$93 million), respectively. Prepayments for acquisitions of land use rights and property, plant, and equipment have not started to depreciate nor amortise yet. The decrease was mainly due to the written-off of VAT recoverable amounted to approximately HK$99 million during the Review Year.

Despite the net liabilities position as at 31 December 2023, the Group had non-current assets of approximately HK$374 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. With the improvement of the economic environment and the management's proactive efforts to keep improving its operating profit and reducing pressure from borrowings, the Directors are confident that they will return the Group to its net assets position from net liabilities.

As at 31 December 2023, the net current liabilities of the Group were HK$979 million (31 December 2022: HK$1.038 billion). Its current bank borrowings amounted to HK$446 million (31 December 2022: HK$453 million), while the cash and cash equivalents amounted to approximately HK$39 million (31 December 2022: HK$33 million).

As mentioned above, although the Group failed to fulfil certain contractual terms of bank borrowings and is facing various litigations, the Group has been actively communicating with the banks to discuss renewal and waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements. Meanwhile, the Group endeavored 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. Given 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 equity attributable to equity holders of the Company was a deficit of approximately HK$695 million, it is not appropriate to calculate the gearing level as at 31 December 2023.

CHARGES ON ASSETS

As at 31 December 2023, certain trade receivables of the Group with a carrying amount of approximately HK$13 million (31 December 2022: HK$12 million) were pledged against a bank borrowing with a total amount of approximately HK$31 million (31 December 2022: HK$41 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 2024. 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 finalised, 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 2023, there were outstanding litigations initiated by banks in the PRC against a subsidiary of the Group demanding that subsidiary to repay the outstanding bank borrowings of approximately HK$437 million (31 December 2022: HK$443 million) immediately. For details, please refer to note 13(ii). 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 2023, the Group had a total of approximately 1,000 (31 December 2022: approximately 1,400) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$99 million, accounting for 7.0% of the revenue of the Group (2022: HK$106 million, accounting for 4.9% of revenue).

The Group firmly believes that the professional knowledge, capabilities and development of our employees will determine the height of corporate development. The Group is committed to providing competitive remuneration and other employee benefits, including retirement contributions schemes as social security program. In line with the industry and market practice, the Group offers performance-based bonus incentives and share option scheme to enhance employees' sense of belonging to the Group; it also encourages employees to innovate and improve. In addition, the Group also invests resources in providing continuous education and training for the management personnel and other employees, aiming to continuously improve the technical and knowledge levels of employees and enhance their competitiveness.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As global climate issues become increasingly severe, the low-carbon economy has emerged as a future development trend. More and more companies are beginning to focus on environmental protection and energy-saving issues and are implementing low-carbon business models. As a responsible corporation, the Group recognises its duties and mission as a public company and actively fulfils environmental protection measures, striving to reduce the negative impact of production and business activities on the environment.

During the Review Year, the Group adhered to green and low-carbon production methods and continued to increase investment in environmental protection and research and development. Through a variety of measures, the Group is striving to reduce waste emissions during the production process, promoting the green transformation and upgrade of the enterprise. In the future, the Group will continue to uphold the philosophy of green development, take sustainable development as its responsibility, integrate the concept of energy saving and green production into its corporate culture, and contribute to China's low-carbon development with Yurun Food's efforts.

GOING CONCERN

RESPONSES FROM THE DIRECTORS REGARDING THE "DISCLAIMER OF OPINION" SET OUT IN THE INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

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 2023 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 2023, assuming the success of the plans and 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

Despite facing multiple challenges, including business losses, breaches of certain covenants in bank borrowings and litigation, the Directors and Management Team have been actively addressing these issues throughout the Review Year. The Group maintained regular communication with the remaining two banks on the outstanding bank borrowings during the Review Year. All parties hope that the Group can sustain normal operations, and the banks have indicated that they would not take any aggressive actions against the Group. The Directors and Management Team believe that the likelihood of the banks requiring immediate repayment from the Group is low, therefore not posing a significant impact on the Group's business operations.

Taking into account the above circumstances, the Directors believe that the Group has sufficient financial resources to support its operations and fulfil its financial obligations maturing within 12 months from 31 December 2023.

However, the auditor did not remove the "Disclaimer of Opinion" for the year under review due to the outstanding bank borrowings that have yet to be fully resolved. The main reason for this is that the tightened audit process timeline by domestic banks during the Review Year compared to previous years has resulted in a prolonged communication process, and a satisfactory resolution was not reached before 31 December 2023.

Views of the Audit Committee and Directors

Regarding the consolidated financial statements of the Group for the year ended 31 December 2023, the Audit Committee of the Company has carefully reviewed the relevant documents and discussed at its meeting the dissenting opinions of the directors and auditor on the going concern basis. The Audit Committee and 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 the "Disclaimer of Opinion".

The main focus of our Company's work plan to address overdue bank borrowings: Currently, the Group has two overdue but outstanding bank borrowings from two state-owned and national commercial banks in the PRC. The Group has been in communication with the relevant banks, hoping to reach consensus such as installment repayment of the principal and the waiving of penalties and compound interest for the previous periods. Meanwhile, the Group endeavored to persuade the banks to realise their rights as creditors within the relevant time frame under the consolidated restructuring plan. However, the communication process generally requires first reaching a consensus with the branch of the relevant lending bank, then obtaining approval at the branch level before reporting to the head office. The branch can only execute the solution after the head office's final approval. The communication timetable, approval process, and difficulty vary with each bank, requiring coordination with each bank according to its internal procedures.

The Directors and the management have continuously negotiated with the banks in the past on several occasions, but due to the COVID-19 pandemic in recent years and the tightening of bank approval processes, work progress has been severely delayed. In 2024, the Directors and management will continue to fulfill their responsibilities and strive to secure the most favorable solutions 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.

Removal of "Disclaimer of Opinion"

The Directors believe that when the above work plan can be implemented as expected, the Group will be able to comply with the revised terms or re-financing terms of the outstanding bank borrowings to eliminate the uncertainty of the Auditor on the going concern of the Group. Subject to the successful and favorable results of such action plans (as the outcome of resolving the overdue bank borrowings depends on the approval process and communication of the progress of the respective banks), and subject to the conclusion of negotiations with the respective banks in 2024, 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 2024.

Views of the Audit Committee and Directors

The Directors and the Audit Committee have reviewed and commented on the proposed action plan, and are of the view that, if implemented as anticipated, the above action plan would be sufficient to eliminate the auditor's concerns about the Group's ability to continue as a going concern and remove the "Disclaimer of Opinion".

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 C1 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. Meanwhile, Ms. Zhu Yuan acts as both the chairman of the Board and chief executive officer of the Company. 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 C3 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 2023 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 2023".

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 2023 containing all the financial and other related information required by the Listing Rules will be despatched to the shareholders of the Company (if requested) and published on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
Zhu Yuan
Chairman & CEO

Hong Kong, 27 March 2024

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 Xu Xinglian.